A Pension Primer

A Report by the
National Council of Welfare

Summer 1999

Canada

A PENSION PRIMER

A Report by the

National Council of Welfare

Summer 1999

The National Council of Welfare is pleased to announce the opening of its site on the World Wide Web at http://www.ncwcnbes.net. The site includes copies of all recent Council publications in both English and French, background information about the Council, and selected statistics on welfare and poverty.

The Council is also pleased to inform readers that our mailing list software has been upgraded. We apologize for any lost or misdirected reports during the transition period.

Copies of this publication may be obtained from:

National Council of Welfare
2nd Floor, 1010 Somerset Street West
Ottawa K1A 0J9
(613) 957-2963
FAX: (613) 957-0680
E-MAIL: ncw@magi.com

Également disponible en français sous le titre:
Guide des pensions

Cat. No. H68-49/1999E
ISBN 0-662-28008-3

TABLE OF CONTENTS

INTRODUCTION

Canada's retirement income system is supposed to perform two important tasks. The first is to ensure that elderly people have incomes high enough to allow them to live in dignity no matter what their circumstances were during their working years. The second is to maintain a reasonable relationship between income before and after retirement so that old age does not bring a drastic reduction in a person's standard of living.

Neither one of these objectives is being fully met. More than 600,000 people 65 and older live in poverty. Many workers with average incomes experience a sharp drop in their living standards when they retire. Only the rich have the luxury of not worrying about money, yet they are the greatest beneficiaries of the tax breaks provided by governments to help people build up nest eggs for their retirement years.

A Pension Primer is a guide for people with no special expertise in pensions. It is an update of reports published by the National Council of Welfare in 1984, 1989 and 1996, and it incorporates the numerous changes in retirement income plans that were enacted by governments in recent years. It also highlights major shortcomings that have still not been addressed.

The report provides detailed information about each of the three levels of the retirement income system.

- The first level is made up of federal, provincial and territorial income security programs. The best known of these is the federal Old Age Security pension paid to most Canadians 65 and older. The other federal programs are the Guaranteed Income Supplement for low-income seniors and the Spouse's Allowance for some low-income people 60 through 64.

- The second level is made up of the Canada Pension Plan and its sister plan in Quebec, the Quebec Pension Plan. Both plans are run by governments and ensure that members of the paid labour force put aside a modest portion of their current earnings to provide a modest amount of retirement income.

- The third level includes occupational pension plans - often called private plans or employer-sponsored plans - and individual registered retirement savings plans or RRSPs.

Together with the Canada and Quebec Pension Plans, these plans are supposed to replace a large portion of pre-retirement earnings.

An overview of the three levels can be found in Appendix A. Appendix B outlines income tax breaks for seniors.

The United Nations has designated 1999 as the International Year of Older Persons. The National Council of Welfare is pleased to offer this report as a modest contribution to research on the economic well-being of seniors in Canada.

THE FIRST LEVEL: INCOME SECURITY PROGRAMS

The first level of the retirement income system provides basic income to older Canadians. It is made up of three federal programs - the Old Age Security pension, the Guaranteed Income Supplement and the Spouse's Allowance - and "top-up" programs financed entirely by some provincial and territorial governments.

Old Age Security (OAS)

The cornerstone of income security programs for elderly Canadians is the Old Age Security pension. About 3.7 million people 65 and older receive old age pension cheques every month at a cost to the federal treasury of more than $18 billion a year.[1]

Benefits are raised in January, April, July and October in line with increases in the Consumer Price Index of Statistics Canada. This technique, called indexation or indexing, prevents the purchasing power of benefits from being eroded by inflation. When the Consumer Price Index stays the same or dips slightly from one quarter to the next, the Old Age Security pension stays the same.

In 1998, the OAS pension was $407.15 a month during the first and second quarters of the year, $408.78 a month during the third quarter and $410.82 a month during the fourth quarter. The monthly payments added up to $4,901.70 for the year as a whole.

In 1999, the payments were $410.82 a month in the first quarter, $411.23 a month in the second quarter and $413.70 a month in the third quarter.

Old Age Security benefits are taxable, so a portion of the money paid out is recovered by government. However, many elderly Canadians have low or modest incomes and pay little or no income tax.

For many years, the old age pension was a "universal" social program, because benefits went to everyone 65 and older subject only to residence requirements. Seniors qualified for

benefits regardless of whether they were retired or working and regardless of any other sources of income.

Proposals in the federal budget speech of April 1989 later enacted by Parliament ended the universal nature of the program. The technique used was a "clawback" of Old Age Security benefits. High-income seniors continued to receive their old age pension cheques every month, but they had to repay all or some of the amounts they received during the year at income tax time. Since July 1996, the federal government has withheld an amount equal to the clawback from monthly OAS cheques. That ended the charade of the government sending out cheques to wealthy seniors every month only to recapture the money at tax time.

In the 1998 tax year, seniors lost 15 cents of Old Age Security benefits for every dollar of net income above $53,215. Seniors with net incomes of $85,893 or more did not receive any OAS benefits.

Four other changes or attempts to make changes in the Old Age Security pension in recent years are worthy of mention.

New residence requirements were introduced in 1977. Seniors once qualified for full old age pensions if they had lived in Canada at least ten years. Under the new requirements, people who spend any appreciable part of their adult lives outside Canada have to "earn" their pensions at a rate of 1/40th of the full pension for each complete year of residence after age 18. No benefits are paid to people who lived less than ten years in Canada unless they came from countries which have international social security agreements with Canada. By January 1999, there were 179,520 seniors or five percent of the total of 3.7 million who were receiving less than full Old Age Security pensions.[2]

Secondly, caps were placed on the amount of indexation provided in the old age pension in 1983 and 1984 under the "six-and-five" anti-inflation program of the federal government. Indexation was to be limited to six percent in 1983 and five percent in 1984. The actual impact on pensioners turned out to be nil because the rate of inflation began falling sharply before the beginning of 1983. Full indexation officially resumed in 1985.

In the budget speech of May 1985, a different kind of limit on indexation was proposed by the federal government in order to help trim the deficit. The Old Age Security pension would have been indexed only for inflation in excess of three percent a year. If inflation was five percent in any given year, for example, the OAS pension would have gone up only two percent. This proposal was withdrawn a few weeks after the budget because of protests by seniors and others, and the old age pension remains fully protected against inflation.

Finally, the 1996 budget speech proposed a new Seniors Benefit for people 65 and older to replace both the Old Age Security pension and the Guaranteed Income Supplement as of January 1, 2001. Its main features were as follows:

- The maximum benefit was to be $120 a year higher than benefits from Old Age Security and the Guaranteed Income Supplement combined. Low-income single people were to receive an extra $120 a year, and low-income couples would have split the extra $120.

- Entitlements to benefits were to be based on family income rather than individual income. The clawback of benefits that started in 1989 was based on individual income. A couple where one spouse has $53,000 in net income and the other has $53,000 in net income get to keep their OAS pensions under the current arrangements. Under the proposed Seniors Benefit, their entitlement to benefits was to be based on their combined net income.

- The threshold for receiving maximum benefits under the new regime was to fall dramatically to $25,921 in net family income from $53,215 in net individual income. Large numbers of seniors, including many seniors with incomes little more than average, would have seen their pensions cut or eliminated altogether.

The proposed Seniors Benefit was severely criticized by older Canadians and many other individuals and groups. The Minister of Finance finally bowed to the critics and cancelled the budget proposals in 1998.

Guaranteed Income Supplement (GIS)

Another important federal program for seniors is the Guaranteed Income Supplement. It was introduced in 1967 to help pensioners who have little income other than their Old Age Security pensions.

Nearly 1.4 million people 65 and older - about 37 percent of all Old Age Security pensioners - have full or partial Guaranteed Income Supplement payments added to their monthly Old Age Security cheques. The cost of the supplement to the federal government is $4.9 billion a year.

The maximum supplements paid in the third quarter of 1999 were $491.65 a month for a single pensioner and $640.48 a month for a two-pensioner couple - $320.24 for each spouse. Married people get less than singles because they save money on many types of household expenses by sharing. Benefits are not counted as taxable income.

The supplements are indexed quarterly to changes in the Consumer Price Index, and there have been several ad hoc increases over the years in addition to these cost-of-living increases. Unfortunately, the last ad hoc increase was many years ago, in 1984.

Low-income pensioners receive full or partial Guaranteed Income Supplement payments depending on their income. For every $2 of outside income, benefits are reduced by $1. The Old Age Security pension and a few other types of benefits do not count as outside income for the purposes of the program.[3]

Table 1 on the next page shows how Guaranteed Income Supplement benefits decline and eventually disappear as outside income aside from Old Age Security increases. The benefits were those available in the third quarter of 1999 based on outside income received in 1998.

Single pensioners with outside incomes of less than $24 a year qualified for the maximum GIS benefit, and they got partial benefits in the third quarter of 1999 if their incomes in 1998 were less than $11,808. Elderly couples with family incomes of less than $48 a year got maximum GIS benefits, and they received partial benefits if their family incomes in 1998 were less than $15,408.

TABLE 1

GUARANTEED INCOME SUPPLEMENT BENEFITS, JULY - SEPTEMBER 1999

Single Pensioner		Each Person in Two-Pensioner Couple	
1998 Income Excluding OAS	Monthly GIS Benefit	1998 Income Excluding OAS	Monthly GIS Benefit
None	$491.65	None	$320.24
$2,000	$408.65	$2,000	$279.24
$4,000	$325.65	$4,000	$237.24
$6,000	$241.65	$6,000	$195.24
$8,000	$158.65	$8,000	$154.24
$10,000	$75.65	$10,000	$112.24
$11,808 or more	$0	$12,000	$70.24
		$14,000	$29.24
		$15,408 or more	$0

Until recently, seniors had to apply for GIS benefits every spring. Starting in 1999, the federal government has arranged to renew the Guaranteed Income Supplement (and the Spouse's Allowance) automatically in most cases. Revenue Canada is providing the necessary information to Human Resources Development Canada from the income tax forms filed by seniors. HRDC then calculates a person's GIS entitlement and notifies the person by mail in July.

Across the country, the proportion of elderly Canadians who receive the Guaranteed Income Supplement varies considerably. Nearly seven of every ten pensioners living in Newfoundland and the Northwest Territories qualify for the supplement. In Ontario and British Columbia, only about three in ten pensioners qualify.

TABLE 2

NUMBER OF PEOPLE RECEIVING OLD AGE SECURITY AND THE GUARANTEED INCOME SUPPLEMENT, JANUARY 1999

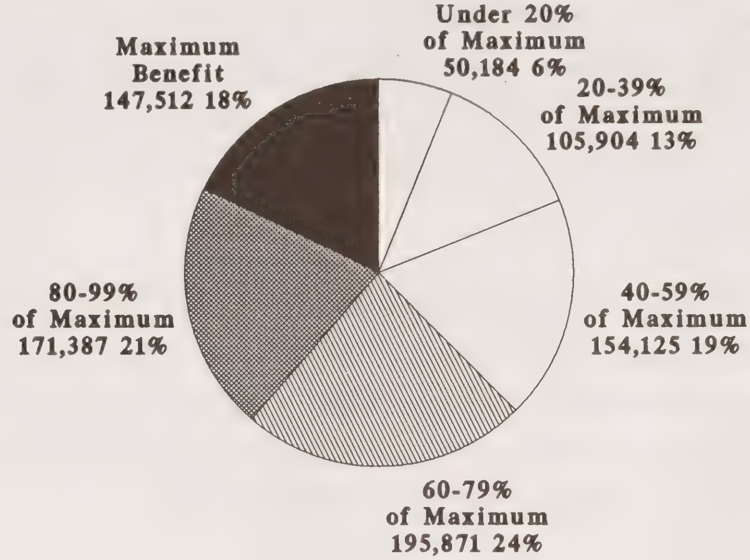
	Old Age Security Pension	Guaranteed Income Supplement	Percentage of OAS Pensioners Receiving GIS
Newfoundland	61,951	42,957	69%
Prince Edward Island	17,731	9,738	55%
Nova Scotia	122,216	59,005	48%
New Brunswick	96,585	52,245	54%
Quebec	908,634	447,344	49%
Ontario	1,362,634	381,837	28%
Manitoba	154,010	61,253	40%
Saskatchewan	146,510	61,689	42%
Alberta	280,777	103,800	37%
British Columbia	480,979	151,754	32%
Northwest Territories	2,155	1,463	68%
Yukon	1,588	625	39%
Outside Canada	55,692	10,312	19%
Total	3,691,462	1,384,022	37%

Poverty among the elderly has declined significantly during the last two decades, but the number of people who have to rely on the supplement to make ends meet is still very high.[4] The financial hardships of single persons are substantially more widespread and severe than the hardships facing couples. And among singles, women are particularly disadvantaged. About 80 percent of all single GIS recipients are women.

Graph A-1 and Graph A-2 on the next page show the distribution of Guaranteed Income Supplement benefits for single people and couples as of June 1998. The pie on the top half of the page shows that 147,512 people or 18 percent of all single seniors receiving the Guaranteed Income Supplement got the maximum benefit. That means they had less than $24 in outside income the previous year. The three white slices of the pie combined show that a total of 38 percent of single GIS recipients had enough outside income that they qualified for 59 percent or less of the maximum benefit.

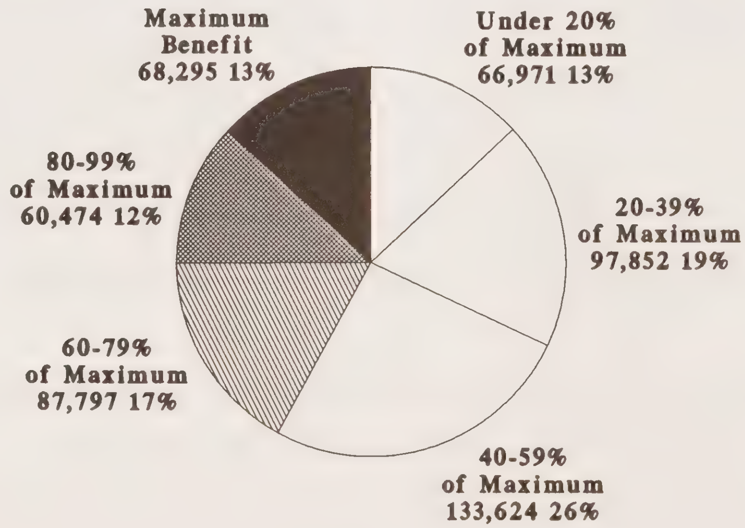
The pie on the bottom of the page shows the distribution of benefits for married seniors who received GIS benefits in 1998. A total of 68,295 married persons or 13 percent of all married seniors getting GIS benefits were so poor that they got the maximum benefit. Well over half the married GIS recipients shown in the three white slices of the pie had enough outside income that they got 59 percent or less of the maximum benefit.

Single Recipients of Guaranteed Income Supplement by Size of Benefit, 1998



Graph A-1

Married Recipients of Guaranteed Income Supplement by Size of Benefit, 1998

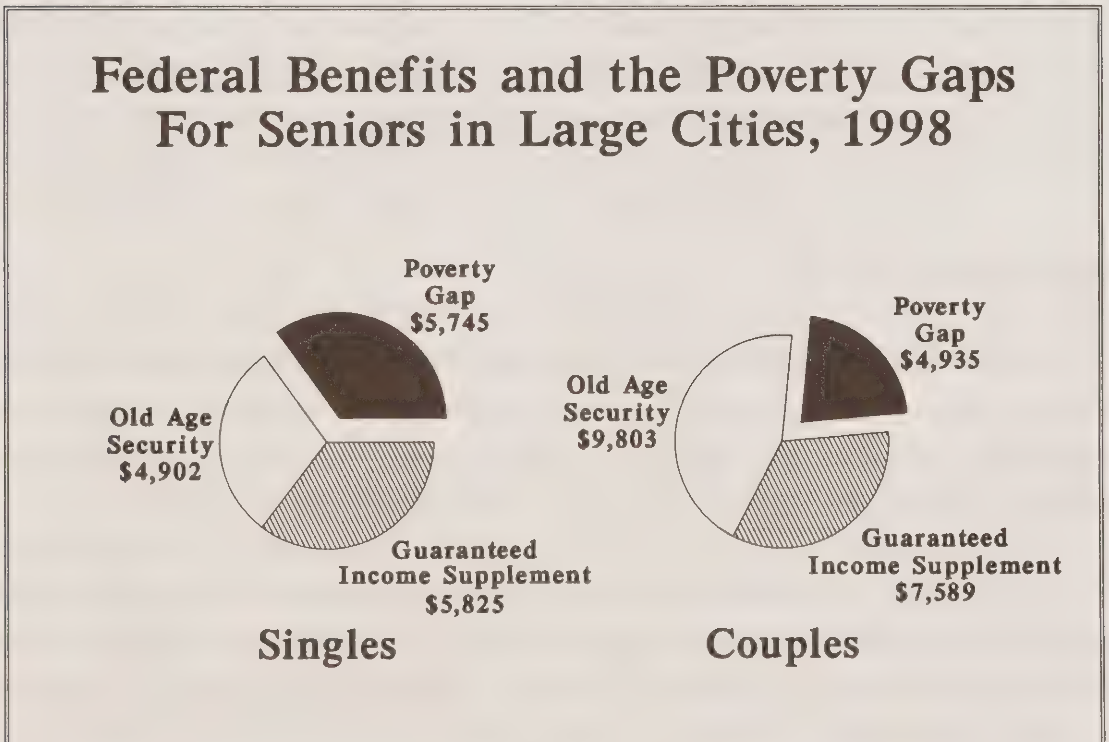


Graph A-2

For a single pensioner, the maximum Guaranteed Income Supplement was $5,825 a year in 1998. Together with the Old Age Security pension, a single person was guaranteed an income of $10,727 a year. That amount is just below the 1998 poverty line of $11,213 for a single person living in a rural area, but far below the poverty line of $16,472 for a city with a population of 500,000 or more.[5]

For couples, the maximum supplement was $3,794 for each spouse in 1998. Two maximum GIS benefits plus two OAS pensions provided total family income of $17,392. That amount was substantially above the poverty line of $15,202 for couples in rural areas, but well below the poverty line of $22,327 for a large city.

Graph B shows the maximum benefits available in 1998 from the Guaranteed Income Supplement and Old Age Security pension and the "poverty gaps."



Graph B

The poverty gaps represented by the "cut" pieces of pie in the graph are the amounts of money that singles and couples would have needed to get up to the poverty line for a large city in 1998. The poverty gap for single seniors with no other outside income was $5,745 in 1998, and the gap for senior couples was $4,935.

In addition to the normal Guaranteed Income Supplement, there is a special GIS for seniors who are immigrants to Canada and who do not qualify for full Old Age Security pensions.

Within a few years of the 1977 change in OAS residence requirements, provincial governments expressed concern that some recipients of partial OAS pensions would wind up on welfare. The federal government responded in 1984 by introducing a kind of "super" Guaranteed Income Supplement for these pensioners. In effect, the super GIS covers any losses in OAS as well as providing benefits equivalent to the regular GIS.

The 1996 budget speech announced sharp limits on the super GIS for people who were not already receiving OAS and GIS benefits. Under the new rules enacted by Parliament, sponsored immigrants are not eligible for the Guaranteed Income Supplement or Spouse's Allowance during their period of sponsorship - up to ten years.

Spouse's Allowance (SPA)

The Spouse's Allowance, by far the smallest of the federal income security programs for older people, helps a select group of low-income people ages 60 through 64. The program has about 99,000 beneficiaries - the vast majority of them women - and costs the federal government about $390 million a year.

There are two different rates for the Spouse's Allowance. For people married to pensioners who receive the Guaranteed Income Supplement, the maximum Spouse's Allowance in the third quarter of 1999 was $733.94 a month. For widowed people, the maximum monthly allowance was $810.28.

Benefits are reduced as outside income rises and eventually disappear. In the third quarter of 1999, married people 60 through 64 qualified for partial Spouse's Allowances if their family incomes in 1998 were under $22,032. Widows and widowers got Spouse's Allowances if their 1998 incomes were under $16,152.

The payments are not subject to income tax and are increased quarterly in line with the Consumer Price Index.

The Spouse's Allowance dates back to 1975. The program was designed to provide benefits equivalent to the Old Age Security pension and the Guaranteed Income Supplement. The initial target group was people in need 60 through 64 who were married to GIS recipients.

People who got the Spouse's Allowance used to lose all their benefits when their pensioner spouses died. That inequity was eliminated in 1979 under legislation that allows recipients to continue receiving benefits to age 65, when they become eligible for Old Age Security and the Guaranteed Income Supplement.

Further changes were enacted in 1985 to open the Spouse's Allowance to all widows and widowers 60 through 64 who are in need.[6] However, the program still does not cover low-income single people 60 through 64 who never married, people 60 through 64 who are divorced or separated, or older couples where both spouses are under 65.

Many of the people who are excluded from the Spouse's Allowance are not in the paid labour force. Their main alternative is welfare, and welfare rates are generally much lower than the allowance.

As with the Guaranteed Income Supplement, the Spouse's Allowance is too small to keep all recipients out of poverty. The maximum Spouse's Allowance for a widow or widower was $9,601 in 1998. That was $6,871 under the poverty line for a large city. For a married person, the maximum Spouse's Allowance was $8,696. One maximum allowance combined with a spouse's Old Age Security pension and maximum Guaranteed Income Supplement provided family income of $17,392. That was $4,935 below the poverty line for a large city.

One quirk in the Spouse's Allowance program that developed over the years is that benefits continue to be paid at a lower "married rate" when recipients lose their spouses. A widow or widower 60 through 64 getting the maximum Spouse's Allowance got $810.28 a month in the third quarter of 1999 under a married rate. Meanwhile, a widow or widower 65 or older getting the Old Age Security pension and the maximum Guaranteed Income Supplement got $905.35 a month under a single rate - $95.07 a month more.

Provincial and Territorial Income Supplements

Elderly people living in Newfoundland, Ontario, Manitoba, Saskatchewan, Alberta, British Columbia, Yukon, the Northwest Territories and Nunavut receive provincial or territorial income supplements as well as federal income security benefits. Newfoundland unveiled its supplement in the 1999 provincial budget speech, and Nunavut decided to match the supplement of the Northwest Territories when it became Canada's third territory in 1999.

At last count, there were more than 300,000 seniors receiving provincial and territorial income supplements. The total value of the benefits was in the order of $250 million a year.[7] Most of the supplements are paid monthly, but Manitoba makes quarterly payments and the new Newfoundland benefit of up to $200 a person is paid once a year in the fall.

Unlike federal programs for the elderly, provincial and territorial programs are not indexed to keep them current with the cost of living. Benefits in Ontario, British Columbia and Yukon have not been raised since the 1980s.

Also unlike federal programs, most provincial and territorial supplements ignore the relatively greater financial needs of single people. Poverty is much more widespread and much more severe among single pensioners than couples. In 1997, 42 percent of unattached senior women and 27.2 percent of unattached senior men were poor, compared to only seven percent of senior couples.[8]

Saskatchewan and Alberta pay proportionately larger benefits to singles. In Newfoundland, Ontario, Yukon, the Northwest Territories and Nunavut, couples get twice the

benefits of single people. Manitoba and British Columbia pay couples more than twice the supplement for single pensioners.

Table 3 shows provincial and territorial benefits for the calendar year 1998 - before the Newfoundland supplement was announced and before the creation of Nunavut.

TABLE 3

PROVINCIAL AND TERRITORIAL SUPPLEMENTS FOR THE ELDERLY, 1998

	Maximum Annual Benefit	
	Single Person	Two-Pensioner Couple
Ontario	$996	$1,992
Manitoba	$446.40	$959.20
Saskatchewan	$1,080	$1,740
Alberta[9]	$2,350	$3,500
British Columbia	$591.60	$1,446
Yukon	$1,200	$2,400
Northwest Territories	$1,620	$3,240

In addition to these supplements, all provinces and territories provide other kinds of benefits to seniors. There may be help to meet housing costs, for example, or relief from local taxes. All these programs are welcome for older people with low or modest incomes, but it is difficult to know how much of an impact they really have in reducing poverty among seniors.

Inadequate Income Support

The federal, provincial and territorial income support programs in the first level of the retirement income system provide a minimum guaranteed income for older Canadians. They also provide the foundation for the programs in the second and third levels of the system. Unfortunately, the basic income supports from government are not large enough to keep all seniors out of poverty.

Table 4 on the next page shows the maximum combined benefits for singles and couples living in the largest city in each province in 1998, the poverty lines for each city, and the poverty gaps in each. The territories are excluded from Table 4 because Statistics Canada excludes them from its annual reports on poverty.

The column headed government income includes the federal Old Age Security pension and Guaranteed Income Supplement and any provincial income supplements as described in the previous table. It does not include the federal GST Credit, provincial tax credits, housing subsidies or other government benefits for seniors.

Among poor single people, the poverty gap ranged from $2,661 in Saskatoon to $5,745 in Montreal. Among poor couples, the poverty gap ranged from $481 in Saskatoon to $4,935 in Montreal. The smaller gaps in Saskatoon reflect the impact of the Saskatchewan supplement for seniors and the fact that Saskatoon has somewhat lower poverty lines because its population is under half a million people. The larger gaps in Montreal are due in part to the absence of a provincial income supplement for seniors and higher poverty lines. Quebec is the only province with cities of 500,000 or more people that does not have a provincial income supplement for seniors.

In every province, the poverty gap for single seniors is many hundreds of dollars higher than the gap for married seniors.

Overall, it is clear that the government programs that make up the first level of Canada's retirement income system are not generous enough to keep all pensioners out of poverty. Nonetheless, they are indispensable to older people, and poverty would be much more widespread and severe without them.

TABLE 4

POVERTY GAPS FOR POOR SENIORS IN THE LARGEST CITY IN EACH PROVINCE, 1998

SINGLE PERSONS

City (1996 Population)	Government Income	Poverty Line	Poverty Gap
St. John's (174,000)	$10,727	$14,468	-$3,741
Charlottetown (57,000)	$10,727	$14,134	-$3,407
Halifax (333,000)	$10,727	$14,468	-$3,741
Saint John (126,000)	$10,727	$14,468	-$3,741
Montreal (3,327,000)	$10,727	$16,472	-$5,745
Toronto (4,264,000)	$11,723	$16,472	-$4,749
Winnipeg (667,000)	$11,173	$16,472	-$5,299
Saskatoon (219,000)	$11,807	$14,468	-$2,661
Edmonton (863,000)	$13,077	$16,472	-$3,395
Vancouver (1,832,000)	$11,319	$16,472	-$5,153

MARRIED COUPLES

City	Government Income	Poverty Line	Poverty Gap
St. John's	$17,392	$19,613	-$2,221
Charlottetown	$17,392	$19,158	-$1,766
Halifax	$17,392	$19,613	-$2,221
Saint John	$17,392	$19,613	-$2,221
Montreal	$17,392	$22,327	-$4,935
Toronto	$19,384	$22,327	-$2,943
Winnipeg	$18,351	$22,327	-$3,976
Saskatoon	$19,132	$19,613	-$481
Edmonton	$20,892	$22,327	-$1,435
Vancouver	$18,838	$22,327	-$3,489

THE SECOND LEVEL: THE CANADA AND QUEBEC PENSION PLANS

The second level of the retirement income system is made up of the Canada Pension Plan and the Quebec Pension Plan, a sister plan for residents of the province of Quebec. The plans were started by the federal and provincial governments in 1966 as a way of providing basic pension income for members of the paid labour force and their dependents.

Like the programs that make up the first level of the system, the CPP and QPP are run by governments. But unlike the first-level plans, they are financed by contributions from workers and employers rather than by the public purse.

The Canada Pension Plan covers virtually all members of the paid labour force in nine provinces and the three territories as well as members of the Canadian Forces and RCMP living in Quebec. Changes in the plan require the approval of Parliament and two-thirds of the provinces with two-thirds of the population.

The Quebec Pension Plan covers workers in Quebec and is controlled by the Quebec government. More often than not, its features are identical to those of the Canada Pension Plan.

The two plans provide retirement benefits, disability pensions, benefits to dependent children of deceased plan members and children of disability pensioners, pensions to surviving spouses, and lump-sum death benefits to defray the cost of funeral expenses. Approximately 5.1 million people are beneficiaries of one plan or the other, and the total benefits paid now exceed $23 billion a year.[10]

Benefits already being paid are indexed at the beginning of each year according to changes in the cost of living. The 1999 increase was 0.9 percent for both the Canada Pension Plan and the Quebec Pension Plan.

Benefits other than death benefits are paid monthly. All benefits are considered taxable income for the purposes of federal, provincial and territorial income taxes.

Workers in the paid labour force between the ages of 18 and 65 make contributions to one or the other of the plans. Workers contribute through regular payroll deductions, and their contributions are matched dollar for dollar by employers. Self-employed people pay both the employee and employer shares.

Total contributions to the Canada Pension Plan are about $13 billion a year and contributions to the Quebec Pension Plan about $4 billion. Workers get a break on their income taxes for the contributions they make each year.

TABLE 5

MAXIMUM MONTHLY BENEFITS FROM THE CANADA AND QUEBEC PENSION PLANS, 1999

	Canada Pension Plan	Quebec Pension Plan
Retirement at Age 65	$751.67	$751.67
Disability	$903.55	$903.52
Survivors 65 and Older	$451.00	$451.00
Survivors 55-64	$414.46	$681.47
Survivors 45-54	$414.46	$621.65
Survivors under 45:		
• Not Disabled, No Children	(varies)	$368.91
• Not Disabled, With Children	$414.46	$597.36
• Disabled	$414.46	$621.65
Children and Orphans	$171.33	$54.40

Benefits under both the Canada and Quebec Pension Plans have been improved from time to time until recent years. Several improvements came into force on January 1, 1987, which brought the Canada Pension Plan into line with improvements previously made in the Quebec

Pension Plan. The last round of changes, however, that took effect on January 1, 1998, featured increases in the contribution rate and cuts rather than increases in benefits.

Table 5 on the previous page gives an overview of CPP and QPP benefits as of January 1, 1999. Here is a more detailed description of benefits, and the number of people who receive each kind of benefit.

Retirement Benefits. About 3.4 million Canadians get CPP or QPP retirement benefits worth a total of $16 billion a year. The maximum pension is $751.67 a month or $9,020.04 a year. The standard age of retirement is 65, but contributors have the option of retiring as early as age 60 with reduced pensions or as late as age 70 with enhanced pensions. The reduction or enhancement rate is one-half of one percent for every month before or after a person's 65th birthday. In other words, people retiring 60 months early at the age of 60 lose 30 percent of their normal CPP or QPP pensions. The reduced rates are permanent and continue even after the pensioners turn 65.

Disability Benefits. There are about 340,000 disability pensioners under the two plans, and they get a total of $3 billion in benefits. Pensions are paid only to those who have severe and prolonged mental or physical problems that make it unlikely they could ever work again. Benefits consist of a flat-rate portion and a portion based on previous earnings. The maximum pension is $903.55 a month or $10,842.60 a year in the CPP and $903.52 a month or $10,842.24 a year in the QPP.

Children of disabled pensioners under 18 and children 18 to 25 who are full-time students get flat-rate children's benefits from the Canada Pension Plan of $171.33 a month or $2,055.96 a year. Children of disabled pensioners under 18 get $54.40 a month or $652.80 a year from the Quebec Pension Plan. Children are entitled to two monthly benefits if both parents are disabled or dead and both were CPP or QPP contributors. The total caseload is about 105,000, and total benefits are about $248 million.

Survivor Benefits. There are about 1.1 million people - 88 percent of them women - receiving survivor pensions valued at $3.6 billion. Benefits are paid to the legal spouse of a CPP or QPP contributor or a common-law spouse who had been living with a contributor for at least one year before the date of death. Divorced people do not qualify for survivor benefits.

The CPP and QPP offer the same benefits to surviving spouses 65 and older - 60 percent of the deceased plan member's retirement pension to a maximum of $451 a month or $5,412 a year - but they have different formulas for spouses under 65.

The maximum CPP benefit for a spouse under 65 is $414.46. In the case of surviving spouses between 35 and 45 who are not disabled and do not have dependent children, the maximum benefit is reduced by 1/120 for each month the surviving spouse was under 45 when the CPP contributor died. Surviving spouses under 35 who are not disabled and have no children do not get any benefits at all under the CPP.

The maximum QPP benefits are $681.47 a month for spouses 55 through 64 and $621.65 a month for spouses 45 through 54. For survivors under 45, there are three different maximum rates in the Quebec Pension Plan: $368.91 for a person without children, $597.36 for a person with children and $621.65 for a person with a disability.

Surviving spouses of deceased plan members used to have their pensions cut off if they remarried. The Quebec Pension Plan stopped this practice in 1984 and the Canada Pension Plan followed suit in 1987. Surviving spouses previously cut off because of remarriage had their benefits reinstated.

Children of deceased plan members get benefits similar to the benefits paid to the children of disability pensioners. The caseload is about 115,000 and the value of benefits about $218 million.

Finally, the Canada and Quebec Pension Plans pay a lump-sum death benefit of up to $2,500 to help defray funeral expenses. The maximum used to be six months of retirement benefits to a maximum of $3,580, and the benefit was indexed annually. On January 1, 1998, the maximum death benefit dropped to $2,500 and the maximum was frozen.

The money needed to pay CPP and QPP benefits comes from contributions by workers and their employers and the money earned on those contributions over the years. Under the Canada Pension Plan, contributions from workers and employers traditionally went into a special government account. Money in the account that was not immediately needed to pay benefits was loaned to provincial and territorial governments at an interest rate that was the same as the

current rate on long-term Government of Canada securities. The latest round of changes in the CPP provides for money not immediately needed to pay benefits to be invested in the market in a diversified portfolio of securities.

Under the Quebec Pension Plan, the money from contributions goes into a provincial government fund called the Caisse de dépôt et de placement. Surplus funds are invested in a variety of ways, including corporate stocks and bonds, mortgages and provincial government securities.

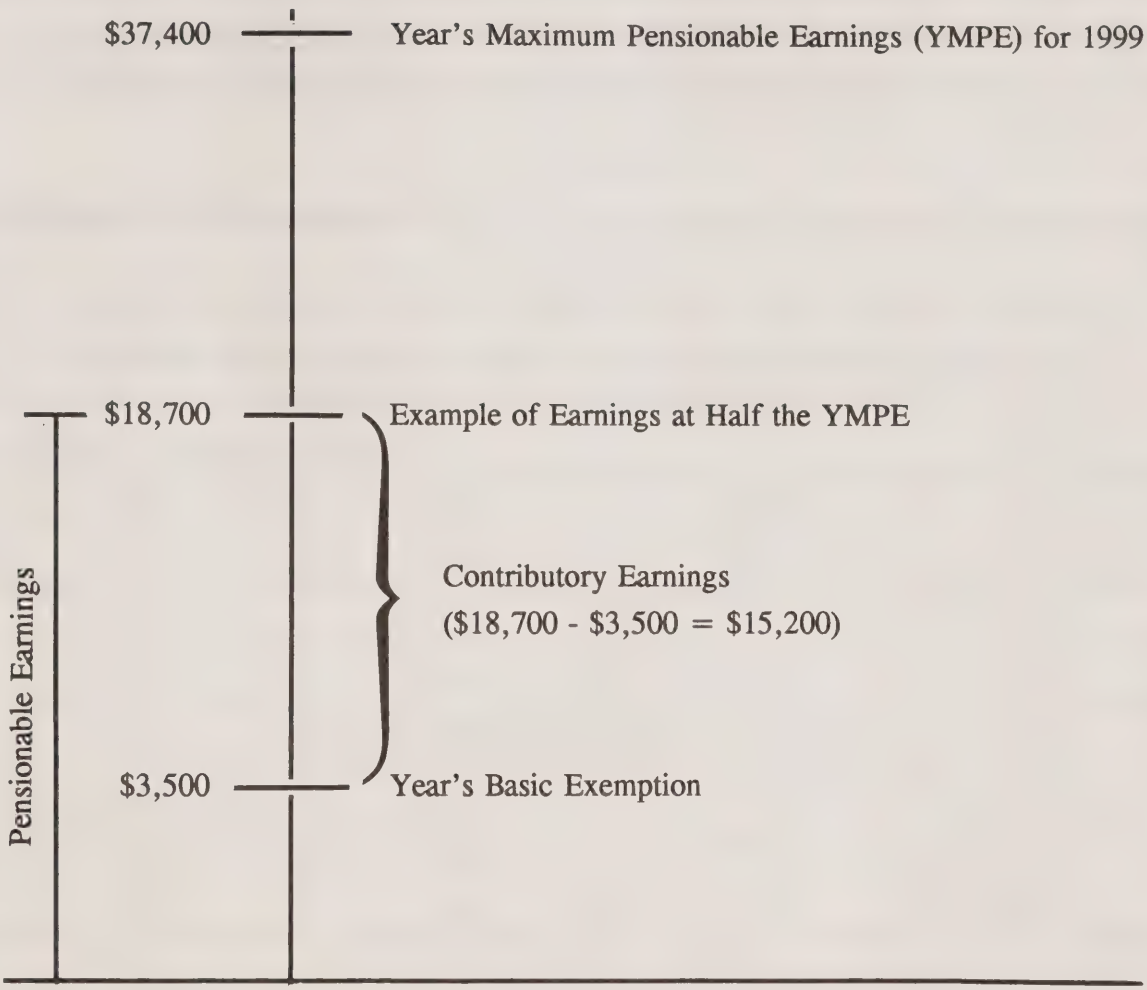
Both the Canada and Quebec Pension Plans meet their obligations to contributors and beneficiaries in a way that is completely different from the occupational pension plans described in the next chapter of this report.

Sponsors of occupational pension plans are required by law to maintain reserves large enough to cover the full cost of pension benefits during the expected lifetimes of all retired plan members and the estimated cost of future benefits for plan members who are still in the labour force. This requirement is known as "full funding." The main reason occupational plans have to be fully funded is to protect employees in the event the employer goes out of business. Clearly, the federal and provincial governments will not be going out of business, so full funding is not needed in the Canada and Quebec Pension Plans.

The contribution rate under the Canada and Quebec Pension Plans was set at 3.6 percent of contributory earnings - 1.8 percent from workers and 1.8 percent from employers - when the plans were started in 1966. Ottawa and the provinces agreed to make small increases in the rate each year beginning in 1987. Further increases were approved by Ottawa and the provinces in the 1998 round of changes.

Graph C on the next page shows the technical terms used in calculating CPP and QPP contributions and benefits and gives an example of a worker who earns $18,700 in 1999 - half of the Year's Maximum Pensionable Earnings of $37,400. The YMPE is about the same as the average industrial wage. The $18,700 in pensionable earnings minus the Year's Basic Exemption of $3,500 produces contributory earnings of $15,200. At the 1999 contribution rate of seven percent, the annual contribution required to the CPP or QPP is $1,064 - $532 from the worker and $532 from the employer.

CPP-QPP TERMINOLOGY



Graph C

Retirement benefits under the Canada and Quebec Pension Plans are based on earnings up to the YMPE each year. Roughly speaking, workers who earn the average wage or better each year of their careers get the maximum CPP or QPP pension. Workers who earn half the average wage each year wind up with half the maximum pension. In calculating a worker's CPP

or QPP pension entitlement upon retirement, pensionable earnings from previous years are adjusted to bring them up to current wage levels.

Table 6 shows the schedule of contribution rates for 1999 and the next 15 years that was approved by the federal and provincial governments as part of the last round of changes in the Canada Pension Plan. Quebec adopted a similar schedule for the Quebec Pension Plan.

TABLE 6

CANADA AND QUEBEC PENSION PLAN CONTRIBUTION RATES, WORKERS AND EMPLOYEES COMBINED

1999	7.0%	2007	9.9%
2000	7.8%	2008	9.9%
2001	8.6%	2009	9.9%
2002	9.4%	2010	9.9%
2003	9.9%	2011	9.9%
2004	9.9%	2012	9.9%
2005	9.9%	2013	9.9%
2006	9.9%	2014	9.9%

Under the schedule, contribution rates increase faster than originally intended until they reach 9.9 percent of contributory earnings in 2003 and subsequent years. Higher rates over the next several years will mean more money coming into the plans that is not immediately needed to pay benefits. This extra money will be invested in securities by the new CPP Investment Board set up under the most recent amendments to the CPP legislation. Governments said they hoped that market investments would earn the plan 3.8 percent a year above the rate of inflation in the long run. That in turn may make it possible to freeze the contribution rate at 9.9 percent beyond 2014.

The National Council of Welfare did not support the schedule proposed by governments in the last round of changes. We would have preferred to see the smaller increases originally proposed by the Chief Actuary of the Canada Pension Plan. The Council does not object in principle to having some of the money from CPP contributors invested in the market, but it believes such a major change in policy should only come after very careful study of the options. No such study was ever published by either the federal or provincial governments.[11]

Not Enough Pension Income

The Canada Pension Plan and the Quebec Pension Plan were designed to replace only 25 percent of earnings up to the average wage. What that means in practical terms is that CPP and QPP retirement benefits combined with the Old Age Security pension are not high enough to keep most seniors out of poverty.

TABLE 7

RETIREMENT INCOMES OF SENIORS WITH MAXIMUM CPP OR QPP PENSIONS, 1998

	Single Person with Maximum CPP-QPP Pension	Couple with One Maximum CPP-QPP Pension
Old Age Security	$4,902	$9,803
CPP-QPP Pension	9,018	9,018
Guaranteed Income Supplement	1,424	3,191
Total Income	$15,344	$22,012
Poverty Line for a Large City	$16,472	$22,327
Poverty Gap	$1,128	$315

Table 7 shows the 1998 incomes of pensioners who retired in 1996 at age 65 with the maximum CPP or QPP pension and the normal federal Old Age Security pension. Both the single pensioner and the couple with one CPP or QPP pension qualified for sizable benefits from the federal Guaranteed Income Supplement. Despite all this, they still wound up living below the poverty line for a city of 500,000 or more people. The poverty gap for the single person with the maximum CPP or QPP pension was $1,128, and the gap for a couple with one CPP or QPP pension was $315.

In reality, many Canadians who receive CPP or QPP retirement benefits get far less than the maximum pension because their earnings during their working lives were well below average. People who retired and started getting Canada Pension Plan benefits in January 1999, for example, got an average monthly cheque of $412.29 - only 55 percent of the maximum of $751.67.

TABLE 8

RETIREMENT INCOMES OF SENIORS WITH ONE-HALF THE MAXIMUM CPP OR QPP PENSION, 1998

	Single Person with Half the Maximum CPP-QPP Pension	Couple with One Spouse with Half the Maximum CPP-QPP Pension
Old Age Security	$4,902	$9,803
CPP-QPP Pension	4,508	4,508
Guaranteed Income Supplement	3,626	5,393
Total Income	$13,036	$19,704
Poverty Line for a Large City	$16,472	$22,327
Poverty Gap	$3,436	$2,623

People who retire with smaller pensions are especially dependent on the Guaranteed Income Supplement. Table 8 shows the incomes of a single person and a couple who retired in 1996 with half the maximum CPP or QPP pension. Even with a sizable GIS payment, the single person ends up $3,436 below the poverty line and the couple $2,623 below the line.

The latest available poverty statistics for 1997 show 470,000 unattached individuals under 65 and 445,000 families headed by people under 65 who could be classed as low-wage poor or "working poor."[12] They were in the paid labour force, yet they still lived below the poverty line.

Some of these workers are people with temporary job difficulties who can look forward to better-paying jobs in the future. Both the Canada and Quebec Pension Plans take account of this possibility through a "general drop-out" provision. The rule allows contributors to the plans to drop out or disregard earnings from 15 percent of their working lives when calculating career earnings for pension purposes. For example, workers who struggled with below-average wages for seven years of their careers and who got average wages for 40 years would wind up with the maximum possible CPP or QPP pension. They would not be penalized for the seven low-wage years.

Other members of the working poor will not fare so well. They will be poor year after year because of chronic unemployment, low wages or their inability to get full-time work. When they retire, they will receive CPP or QPP pension benefits far below the maximum, and their only escape from dire poverty will be through the Guaranteed Income Supplement.

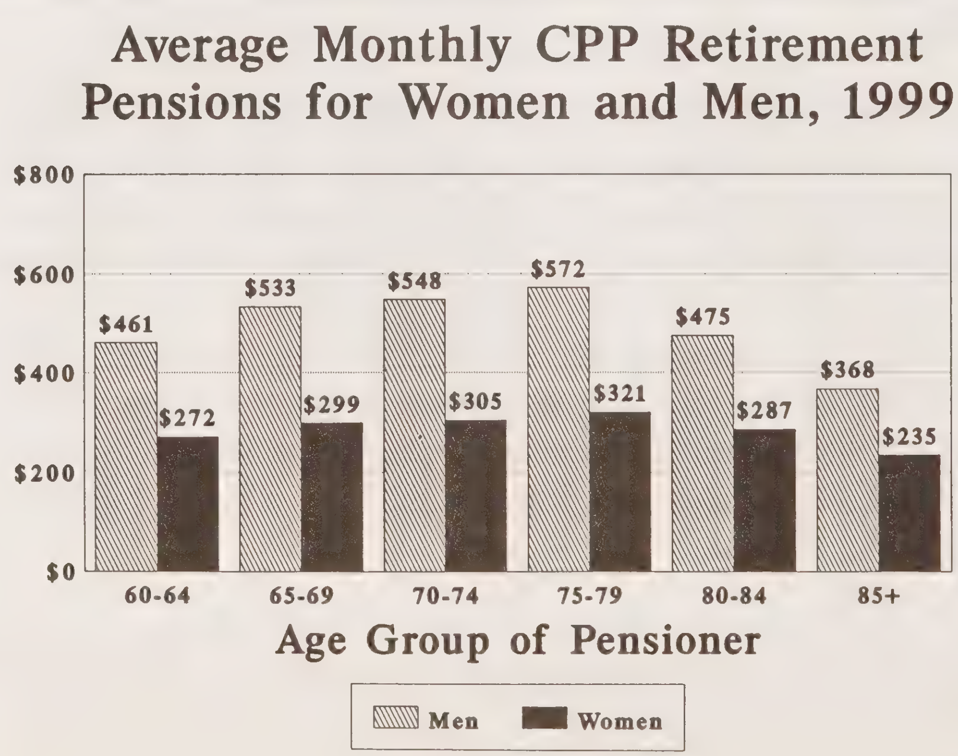
The National Council of Welfare has long called for significant improvements in benefits from the Canada and Quebec Pension Plans to help more seniors escape from poverty and to reduce reliance on the federal Guaranteed Income Supplement. Since money for the GIS comes from the federal treasury, lower GIS payments would free up federal money to bolster social programs for other Canadians.

It makes no sense in our view to restrict benefits under the Canada and Quebec Pension Plan so that a person spends a lifetime working at the average wage or better, retires with the maximum possible CPP or QPP pension, and still cannot escape from poverty without other major sources of income or major government assistance.

The Special Problems Facing Women

The special problems facing women in the labour force are clearly reflected in their retirement benefits from the Canada and Quebec Pension Plans. There are proportionately fewer women than men in paid jobs, so proportionately fewer women wind up with their own CPP or QPP retirement pensions. Women in the labour force are paid much lower wages than men on average, and they have proportionately more part-time jobs and fewer full-time jobs than men, so the size of their pensions tends to be small.

Graph D shows the average monthly retirement pension paid by the Canada Pension Plan in January 1999 to women and men by age group.[13] For pensioners ages 65 through 69, for example, the average benefit paid to men was $533 a month, and the average benefit paid to women was $299 - or 56 percent of the average amount paid to men. By way of comparison, the maximum amount available from the plan for people who retired in January 1999 was $752 a month.



Graph D

The same general pattern applies to all the age groups shown in the graph, from the women and men who chose to take early retirement before age 65 to the women and men 85 and older who retired many years ago.

The statistics are depressing for those who had assumed that the economic equality of the sexes was just a matter of time, given the increasing proportion of women in the paid labour force, affirmative action programs to get women into higher-paying occupations and pay equity legislation based on the principle of equal pay for work of equal value. The reality is that the problems that women face in the labour force today will be reflected in the CPP pensions they receive many years from now.

On the other hand, several features of the Canada Pension Plan and Quebec Pension Plan help alleviate the disadvantaged position of women.

Women are by far the main beneficiaries of survivor pensions under the two plans. That provides at least minimal income for widowed homemakers who spent all or most of their working lives outside the paid labour force. However, the benefit for a person 65 and older is only 60 percent of the spouse's CPP or QPP pension to a maximum of $5,412 a year. The average survivor's pension paid by the CPP in January 1999 was only $3,092 a year. Both those levels of incomes keep a person well below the poverty line.

For the last several years, both the CPP and the QPP have an option known as the "child-rearing drop-out" that is of special importance to women who take time off from paying jobs while their children are young. The provision allows parents - either mothers or fathers, but traditionally mothers - who have reduced earnings or who stay home while their children are under the age of seven to exclude those years from the calculation of lifetime earnings. The child-rearing drop-out is in addition to the general drop-out of 15 percent of years in the paid labour force that is available to all CPP and QPP contributors.

Quebec has had a child-rearing drop-out since 1977, but foot-dragging by Ontario denied similar help to parents in the rest of the country for many years.[14] The drop-out provision in the CPP finally came into effect in 1983, retroactive to January 2, 1978. People who retired beginning in 1978 or later now can drop out child-rearing years back to the beginning of the CPP and QPP in 1966.

Finally, there are provisions in both the CPP and QPP that allow pension "credits" or entitlements to future pension benefits to be split between spouses if their marriages break down. Under credit-splitting, all pension credits earned by both spouses during their lives together are added up and divided in two. Each spouse eventually gets equal pension benefits for the time they were together.[15]

The 1987 round of improvements to the Canada Pension Plan was originally supposed to make credit-splitting mandatory on marriage breakdown. However, the actual legislation to amend the plan contained much weaker provisions than agreed to by Ottawa and the provinces. The legislation said credit-splitting would take place upon application unless provincial governments explicitly provided otherwise in their family laws. Saskatchewan decided to override mandatory credit-splitting in 1988, and Quebec and British Columbia followed suit.

Credit-splitting elsewhere in Canada remains far from the norm. As of January 1998, only 82,772 applications for splitting had been submitted and approved under the Canada Pension Plan since the option was first available in 1978.

Stepping Forward, Stepping Backward

The first three decades of the Canada and Quebec Pension Plans were characterized by growing numbers of recipients and periodic improvements in benefits. With the plans maturing and more benefits going to more people, it is no accident that the last 30 years also saw a substantial decline in poverty among seniors.

By the beginning of 1996, however, the federal government and most provincial governments had apparently turned their backs on further improvements in the Canada Pension Plan in the foreseeable future. An Information Paper for Consultations on the Canada Pension Plan published in February 1996 contained proposals for major cuts in benefits but not one single proposed improvement. The cuts in benefits were accompanied by proposals to raise contributions faster than necessary to build up a pool of money to invest in securities.

Ottawa and the provinces ultimately turned down most of the proposed cuts - such as cutting maximum retirement benefits, increasing the age for retirement without penalty to 67,

and stepping away from full indexation of benefits. They did agree to lower the maximum death benefit and freeze it at $2,500 and to freeze the Year's Basic Exemption at $3,500. Freezing the exemption has the effect of increasing the contributions required of workers and employers. Although all workers share the extra burden, workers at the low end of the income scale are proportionately the hardest hit.

Other changes approved by governments are expected to trim the maximum disability pension available from the Canada Pension Plan and to limit the size of pensions that are made up of disability and retirement benefits combined or disability and survivor benefits combined. The limits do not apply to people who were already getting benefits as of December 31, 1997, but they do apply to people who started getting benefits on or after January 1, 1998.

The limits on disability pensions came in the wake of an administrative crackdown prompted by rising numbers of claims. The changes in the law are expected to put a further squeeze on people with disabilities. The Canada Pension Plan now requires an applicant for a disability pension to have contributed to the plan in at least four of the previous six years with earnings of at least ten percent of the Year's Maximum Pensionable Earnings. There are also changes in the way the disability pension is converted into a retirement pension at age 65.

Quebec did not tighten up its eligibility requirements for disability pensions from the Quebec Pension Plan. Workers must have contributed to the QPP at least two of the last three years, at least five of the last ten years or at least half of the years in their contributory periods, with a minimum of two years.

Some of the changes in the Canada Pension Plan are expected to result in fewer or lower CPP benefits. The federal government has yet to say how many people might be affected by each of the changes and what the financial impact might be.

Despite all these shortcomings, the Canada Pension Plan and the Quebec Pension Plan are built on sound and sensible foundations. They cover virtually everyone in the paid labour force, they follow workers when they change jobs, and they give pensioners full protection against the loss of purchasing power due to inflation. It is sad that governments of recent years seem so unwilling to build on their past successes for the betterment of all workers.

THE THIRD LEVEL: OCCUPATIONAL PENSION PLANS

The first two levels of the retirement income system provide enough money to keep pensioners out of abject poverty and to ensure a basic level of income, but not much more. Most pensioners need other sources of income to avoid a sharp drop in their standard of living after leaving the paid labour force.

The occupational pension plans and registered retirement savings plans or RRSPs that make up the third level of the system were intended to provide pensioners with up to 70 percent of their pre-retirement earnings. Unfortunately, relatively few people have been able to take full advantage of these two possibilities.

This chapter looks at occupational pension plans sponsored by employers, labour unions and professional organizations - plans that are sometimes called private pension plans, company pension plans, registered pension plans or employer-sponsored pension plans. The next chapter looks at RRSPs.

Occupational pension plans are essentially a way of deferring some of today's wages to provide tomorrow's retirement income. In that rough sense, they operate in much the same way as the Canada Pension Plan and Quebec Pension Plan. However, there are two important differences.

The Canada and Quebec Pension Plans cover virtually all members of the employed paid labour force. Occupational plans covered only 42 percent of paid workers at the time of the last Statistics Canada survey for 1997. Coverage was nearly complete among government employees, teachers, nurses and other workers in the public sector, but it was very spotty in the private sector.[16]

The other major difference is that CPP and QPP retirement benefits are fully indexed to the Consumer Price Index, while less than half of all occupational plan members had any automatic protection against inflation. Indexing was reasonably common in plans for workers in the public sector, but it was rare in plans in the private sector.

The poor coverage and lack of inflation protection in occupational plans in the private sector are major flaws - some would say fatal flaws - in the third level of the retirement income system.

Nearly 2.1 Canadians received $25.5 billion in income from occupational pension plans and related sources in 1996, according to the latest available taxation statistics from Revenue Canada. Of those people, 1.5 million were 65 years old or older, and they received about $15.2 billion from their plans.[17]

Among people still working, there were 5.1 million members of occupational pension plans or 42 percent of paid workers at last count. Coverage by sex was 43.4 percent for men and 40.3 percent for women.

There are two basic types of pension plans, non-contributory and contributory. Non-contributory means the entire cost of the plan is borne by employers. Contributory means workers have to pay a share as well.[18]

Employee contributions usually range from five to ten percent of earnings and are collected by payroll deduction. Contributions by employees and employers alike are tax-deductible. Workers with the largest contributions get the largest tax breaks, and workers in higher tax brackets get proportionately larger tax savings than those in the lowest tax bracket.

In 1997, nearly 73 percent of all plan members belonged to contributory pension plans and the rest to non-contributory plans. Total contributions by plan members were $7.2 billion. Contributions by employers to both contributory and non-contributory plans were $19.6 billion.

There are also two main ways pension benefits are delivered under occupational pension plans. Eighty-seven percent of plan members in 1997 belonged to "defined benefit" plans, and most of the others belonged to "money-purchase" plans.

Money-purchase plans provide monthly incomes that are virtually impossible to estimate prior to retirement. Members build up money in their pension accounts over the years from contributions and earnings on investments. Upon retirement, the money is withdrawn and used to buy an annuity that pays a fixed amount of money every month.

Income from annuities depends in large part on the prevailing interest rates at the time of retirement. If rates are high, the money in the pension account could buy an annuity that delivers relatively large monthly payments. If rates are low, the monthly payments would be relatively low.

Defined-benefit plans avoid this type of uncertainty because they pool the individual risks and guarantee members a fixed percentage of pre-retirement earnings for every year of employment. The most common practice is to take average earnings for the five best years of a person's career and pay two percent of that figure for every year of service. In other words, a person with 35 years of service winds up with a pension that replaces 70 percent of his or her best pre-retirement earnings.

The maximum pension the federal government allows from a defined benefit plan is two percent of best earnings for each year of employment or $1,722.22 for each year of employment, whichever is less. A person who worked 35 years for the same employer and qualified for the maximum benefit each year would get a pension of $60,278 a year on retirement. To qualify for a pension of $60,278, however, a person would need best earnings of $86,111 a year or more during his or her time in the work force.

Contrary to popular belief, and contrary to the way the Canada and Quebec Pension Plans operate, employers who sponsor defined-benefit plans do not invariably match worker contributions dollar for dollar. What they are required to do is contribute enough money to keep their pension funds actuarially sound - that is, large enough to cover all present pension payments for retired employees and all future pension payments for current employees.

Most occupational pension plans are regulated by the federal or provincial governments and have to meet certain minimum standards. The two levels of government agreed in 1986 to improve these standards and to make them more or less uniform in all parts of the country.

The federal government revised its Pension Benefits Standards Act, which covers workers in federally-regulated industries such as banking and telecommunications, and brought the changes into force on January 1, 1987. Small improvements in the pension plans for federal public servants, members of the Canadian Forces and Royal Canadian Mounted Police and others under the federal jurisdiction were finally approved by Parliament in 1989. However,

most of the improvements dealt only with benefits for surviving spouses and dependent children of deceased plan members.

Further changes in the pension plans for federal employees were before Parliament in 1999. The proposed legislation would create the Public Sector Pension Investment Board and establish new arrangements for investing the pension contributions of the federal government and its employees in years to come.

Most provinces have updated the legislation covering occupational pension plans under their jurisdiction in recent years. Prince Edward Island passed a pension bill in 1990, but never brought the legislation into force.

Plan Membership. In the past, many part-time workers were specifically excluded from the occupational pension plans run by their employers. Under the revised federal Pension Benefits Standard Act, full-time employees must be allowed to join existing plans after two years on the job, and part-time workers are eligible to join if they earn at least 35 percent of the Year's Maximum Pensionable Earnings under the Canada Pension Plan or Quebec Pension Plan for two consecutive years. Individual plans can either give eligible workers the option of joining or require that all eligible workers join. Similar membership requirements apply in most other jurisdictions.[19]

Vesting and Locking-In. The original intention of the federal and provincial governments was to have pension contributions vested and locked-in as soon as a worker is a plan member for two years. Most, but not all jurisdictions, now have legislation along these lines. Vesting means workers have a right to future benefits from the contributions made by themselves and also by their employers. Locking-in means the benefits are not actually paid until sometime in the future, usually not before age 55.

One practice that was fairly common until recently was to vest and lock in pension contributions only when employees had ten years of service with the same employer. When workers changed jobs before ten years of service, they got back their own contributions with interest, but nothing in contributions made by their employers.

Early vesting and locking-in mean most pension contributions will actually go to pay pension benefits to workers after they retire. Refunds of contributions - which people might be tempted to spend immediately rather than putting into a retirement account - should become increasingly rare.

Portability. Most workers who change jobs now are able to transfer vested pension benefits to the pension plans of their new employers, to an individual RRSP where benefits are locked in until retirement, or to an annuity that starts paying benefits upon retirement.

These options should work to the advantage of workers, provided they choose wisely. Transferring pension benefits to a new employer's pension plan makes sense if the plan is a good one. If not, workers might do better opting for a locked-in RRSP or deferred annuity.

Survivor Benefits. Ottawa and the provinces agreed that all plans should provide an option of survivor benefits equal to at least 60 percent of the pension of a plan member who dies after retirement. They further agreed that benefits should continue if the surviving spouse remarries.

However, providing an option is different from actually providing survivor pensions to all eligible plan members. The federal Pension Benefits Standard Act, for example, says survivor pensions can be waived with the written consent of both spouses.

With respect to plan members who die before they retire, there was no precise federal-provincial consensus. Most jurisdictions now provide that all or part of the vested pension benefits that had been built up at the time of death should go to the surviving spouse. Depending on the jurisdiction, the survivor benefits could be in the form of a lump-sum cash payment or a transfer to an RRSP or annuity.

As of 1997, 52 percent of all plan members were in plans that provided for lump-sum payments to surviving spouses based on the commuted value of the pension at the time of the plan member's death. Another 26 percent were in plans that provided survivor pensions of one kind or another - most often based on 50 or 60 percent of the plan member's pension entitlement. About nine percent were in plans that provided only for a refund of contributions to the surviving spouse if the plan member died prior to retirement.

Credit-Splitting on Marriage Breakdown. Neither the federal government nor most provincial governments make specific provision for the sharing of future pension benefits between spouses if their marriages break down.

Manitoba requires a 50-50 split and says credit-splitting cannot be overridden by a separation agreement or court order. Some other jurisdictions allow pension credits to be part of the package of assets divided on marriage breakdown. What could happen in these cases is that a wife could waive half her husband's occupational pension plan benefits in exchange for a larger share of the equity in the family home. That may serve the wife well in the short run, but leave her without adequate pension income in her old age.

Poor Coverage in the Private Sector

The most obvious weakness of occupational pension plans is their poor coverage of workers in the private sector. As we mentioned earlier, coverage in the public sector is reasonably complete, although membership in public-sector pension plans is down about five percent in recent years because of cuts in the public-sector work force. Meanwhile, coverage in the private sector remains very spotty - perhaps in the neighbourhood of 30 percent of all paid workers in the private sector.[20]

The contrast between coverage in the public and private sectors goes back many years. There is simply no way that most private employers are going to set up new pension plans for their workers voluntarily, and there has been little support over the years for governments to pass legislation to force the business community to provide occupational pension plans for their employees.

Within the private sector, coverage is heavily weighted in favour of employees of large businesses and industries and in favour of men rather than women.

About two-thirds of all occupational plan members in the private sector work for firms with 1,000 or more employees. Many of these firms are heavy industries where workers are represented by strong labour unions. On the other hand, occupational plan coverage is rare in firms with fewer than 100 employees and extremely rare in firms with fewer than ten employees.

Men far outnumber women in terms of membership in private-sector occupational plans, partly because men are more likely than women to be employed by large companies. There were just under 1.8 million men in the private sector who belonged to pension plans in 1997 and about 915,000 women.

The relative lack of coverage in the private sector as a whole is reflected in the overall statistics on occupational plans. As Table 9 shows, coverage overall in 1997 was down slightly to 42 percent. Among men, coverage dipped to 43.4 percent, while coverage among women was down to 40.3 percent.[21]

TABLE 9

OCCUPATIONAL PENSION PLAN MEMBERSHIP

	Men	% of Paid Workers	Women	% of Paid Workers	Both Sexes	% of Paid Workers
1989	3,095,647	47.3%	1,869,098	36.4%	4,964,745	42.5%
1993	3,024,770	45.3%	2,219,933	41.6%	5,224,703	45.1%
1997	2,865,624	43.4%	2,249,666	40.3%	5,115,290	42.0%

During the past 15 years or so, the percentage of male workers covered by occupational plans has declined more or less steadily. The percentage of female workers has risen slightly over the years, despite an occasional dip or two. For male and female workers combined, the percentage covered by occupation plans has ranged between 42 and 45 percent for the past decade and a half.

Poor Coverage for Low-Wage Workers

It seems unlikely that occupational pension plans will ever be an important source of retirement income to people in low-wage jobs. Coverage by contributory pension plans increases sharply as incomes rise. Coverage by non-contributory plans is probably similar, but neither Statistics Canada nor Revenue Canada has published detailed data on members of non-contributory plans by income class. As Table 10 shows, only four percent of the poorest wage-earners belonged to contributory plans in 1996, and the average contribution by plan members with incomes under $10,000 was a mere $253.[22] A worker who was able to contribute only $253 to a pension plan year after year would not wind up with much retirement income, even after 40 years on the job.

TABLE 10

MEMBERSHIP IN CONTRIBUTORY OCCUPATIONAL PLANS BY INCOME CLASS, TAXABLE RETURNS ONLY, 1996

Income Range	Number of Contributors	Persons with Employment Income	Contributors as % of Persons with Employment Income	Average Contribution to Pension Plan
Under $10,000	23,400	593,340	4%	$253
$10,000-20,000	240,540	2,364,280	10%	$499
$20,000-30,000	637,640	2,372,750	27%	$976
$30,000-40,000	846,030	1,995,070	42%	$1,535
$40,000-50,000	691,570	1,355,790	51%	$2,071
Over $50,000	1,071,760	2,170,080	49%	$3,121
Total	3,510,940	10,851,570	32%	$1,944

The average contribution to occupational pension plans rises as income rises, but it is only when a person gets to average earnings or better than the amounts become significant.

Workers who earned more than $50,000 contributed $3,121 on average to their pension plans in 1996.

All workers who contribute to a pension plan get a tax deduction for their contributions, but workers in the 29 percent or 26 percent federal tax bracket get more of a break than workers in the 17 percent bracket. The deduction for a worker in the 29 percent tax bracket is worth $298 in federal tax savings for every $1,000 in contributions. Assuming a provincial or territorial tax rate equivalent to 50 percent of the basic federal tax, the worker would also get a provincial or territorial tax saving of $149 for every $1,000 in contributions. The combined tax break is about $447 for every $1,000 in contributions.

The worker in the 17 percent federal tax bracket saves $170 in federal taxes and perhaps $85 in provincial or territorial taxes for every $1,000 in contributions, for a combined tax break of only $255.

The latest version of Government of Canada Tax Expenditures published by the Finance Department estimates that the federal government lost just over $9 billion in revenue in 1996 because of the income tax breaks associated with occupational pension plans. However, virtually all of the net loss was due to the fact that the investment income earned by the plans is not taxed. The cost of the tax deduction for the people who contributed to plans in 1996 was offset by the income tax levied on other people who withdrew money when they left their plans during the year.[23]

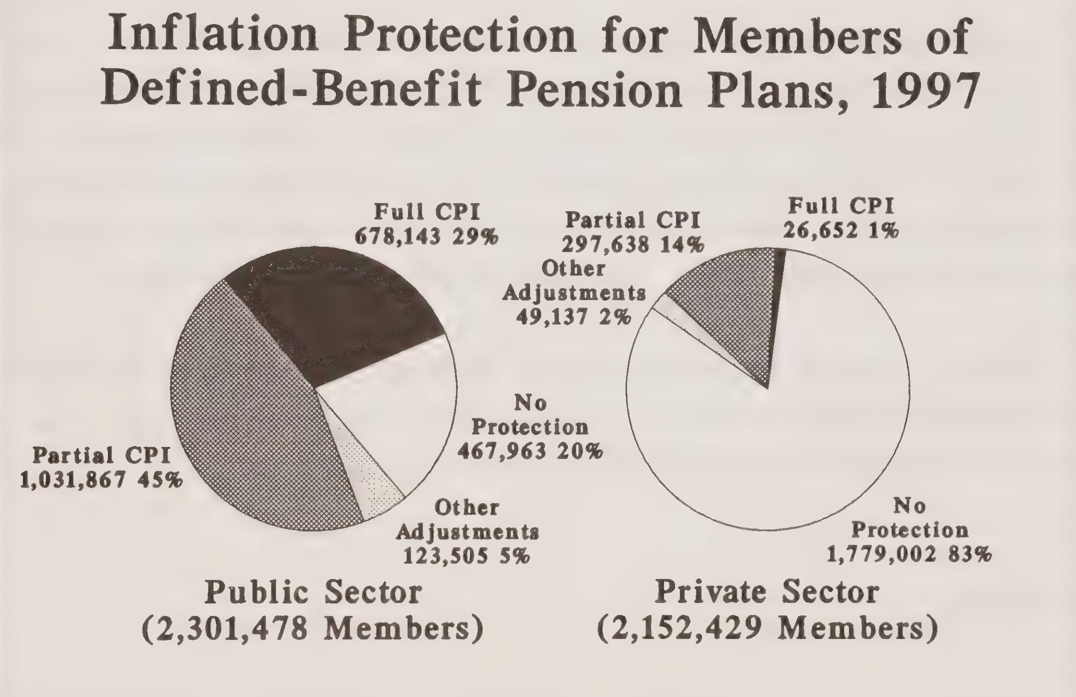
The Finance Department's projected total net loss for 1999 is nearly $6.2 billion. A federal revenue loss of $6.2 billion translates into a loss of $3.1 billion for provincial and territorial governments or a total net loss to both levels of governments of $9.3 billion.

Poor Inflation Protection in the Private Sector

Another major flaw in occupational pension plans is the lack of inflation protection, especially in the private sector. Plans are free to provide cost-of-living protection for pensioners, but they are not required to do so by governments.

Indexation is a vital part of any good pension plan because many pensioners live well beyond the age of retirement. Even a small amount of inflation can cut into the purchasing power of a pension cheque in short order. At an inflation rate of only three percent a year, for example, a person who lived to enjoy 20 years of retirement would see the purchasing power of a pension of $10,000 a year drop to $7,374 after ten years and to $5,438 after 20 years.

Less than half of the members of defined-benefit pension plans have any protection at all against inflation. Those who are protected are heavily concentrated in the public sector, as shown in Graph E.[24]



Graph E

In the public sector, 29 percent of plan members had the ideal form of inflation protection - increases in pension benefits that matched increases in the Consumer Price Index. Another 45 percent had plans that provided for increases to cover some, but not all of the increases in the CPI. Relatively few workers had no protection at all.

In the private sector, only one percent of all plan members had full CPI inflation protection, and only 14 percent had partial CPI protection. Most of the rest - 83 percent in all - had no protection at all.

The lack of inflation protection appears in another way in those pension plans which are based on lifetime or career earnings. In 1997, 390,555 people or eight percent of plan members belonged to career earnings plans, most of them in the private sector.

Career earnings plans normally consider a person's earnings from year to year with no adjustments for inflation. For example, a person who started work in 1959 at an annual salary of $2,000 a year, got regular increases from year to year, and finished working in 1999 at an annual salary of $40,000 a year would probably wind up with average career earnings in the order of $20,000 a year. The person would then retire with a pension based on $20,000 a year rather than on his or her most recent pre-retirement earnings of $40,000 a year.[25]

Fortunately, most occupational plans treat members much better by basing their pensions on the best years of earnings or the last years of earnings. That means that a person can at least start out with a pension that is in line with the cost of living.

A Limited Role

Occupational pension plans play an important, but limited role in providing retirement income to Canadians. They are a major source of income for people who were lucky enough to belong for all or most of their working lives. Unfortunately, access to membership remains a major shortcoming. Workers with the lowest wages rarely have the chance to join an occupational pension plan. Coverage continues to be concentrated in the public sector and in large industries in the private sector.

Changes in the laws in recent years affecting vesting, locking-in and portability should make it possible for more plan members to collect regular pension cheques when they eventually retire. Other changes, especially those regarding survivor benefits, are welcome and long overdue. However, unless workers are lucky enough to belong to public sector pension plans or the few private sector plans that provide for full or nearly full indexation, whatever benefits they do receive are bound to be eroded by inflation.

THE THIRD LEVEL: REGISTERED RETIREMENT SAVINGS PLANS

The other main component of the third level of the retirement income system is registered retirement savings plans or RRSPs. Like occupational pension plans, RRSPs are intended to help people build up retirement income to replace a portion of their pre-retirement earnings. And like occupational pension plans, they have turned out to be most helpful to middle-income and upper-income Canadians.

Registered retirement savings plans encourage regular saving for retirement through tax breaks. People deduct the amount of their RRSP contributions from their taxable incomes each year and thereby reduce their federal, provincial and territorial income taxes. The money that accrues from year to year on RRSP investments is also free from income tax until the RRSP is wound up.

People can cash in their RRSPs when they retire and use the proceeds to buy annuities that pay them fixed amounts of money every month. The income from annuities is taxable, but since many people are in lower tax brackets after they retire, they pay less in taxes than they would have paid during their working lives.

Money accumulated in an RRSP can also be rolled over into a registered retirement income fund or RRIF. Registered retirement income funds have the effect of indexing retirement income to age 90 because they provide for an increase in payouts from year to year. Taxes are paid only on the money received each year.[26]

Many people cash in their RRSPs prior to retirement and use the proceeds for other purposes. Lump-sum withdrawals from an RRSP are subject to income tax in the year they are withdrawn.

Under certain conditions, however, money can be temporarily withdrawn from an RRSP and used for housing or education without incurring an immediate tax liability. Some people are allowed to withdraw money from their RRSPs to build or buy a house under the Home Buyers' Plan, provided that they repay the money at a later date. Somewhat similar provisions

are available to cover the cost of continuing education or adult training programs under the Lifelong Learning Plan.[27]

The latest available taxation statistics show that six million Canadians made contributions to RRSPs for the 1996 tax year - or 29 percent of all the people who filed tax returns. The total amount contributed was $23.8 billion, and the average contribution was $3,959. There were 3.3 million men with an average contribution of $4,541 and nearly 2.7 million women with an average contribution of $3,228.[28]

The federal government puts a limit on the amount of money people in different circumstances can contribute to RRSPs. Successive governments raised the limit in the 1980s and early 1990s in an effort to bring it in line with the limits that applied to members of different types of occupational pension plans. The peak limit on RRSPs was $14,500 during the 1995 tax year. In 1996, the government reduced the limit to 18 percent of earned income to a maximum of $13,500 a year and froze the limit through the year 2003.

People who do not belong to occupational pension plans can contribute up to the $13,500 limit. Members of occupational pension plans have the limit reduced by a "pension adjustment" calculated by Revenue Canada. Roughly speaking, the pension adjustment measures the value of pension entitlements earned by a member of an occupational pension plan during any given year.

RRSP contribution "room" that is not used in a given tax year can be carried forward and used in later tax years. The carry-forward allows people whose financial circumstances vary from year to year a better opportunity to maximize their RRSP contributions. They can take a holiday from RRSP contributions in years when money is tight and make up the difference in better times.

Registered retirement savings plans are an excellent tax break for the people who are able to take advantage of them, but they also represent a major loss of revenue to the federal, provincial and territorial governments. The latest version of Government of Canada Tax Expenditures published by the Finance Department estimates that the federal government lost more than $5.9 billion in 1996 because of the income tax deduction for RRSP contributions, plus another $3.5 billion because the investment income on money in RRSPs is not taxed. These

losses were offset by nearly \$2.2 billion in taxes on money that was withdrawn from RRSPs in 1996.[29]

The total net loss to the federal government from RRSPs was nearly \$7.3 billion in 1996. The Finance Department's projected total net loss for 1999 is more than \$8.5 billion. A federal revenue loss of \$8.5 billion translates into a loss of nearly \$4.3 billion for provincial and territorial governments or a total net loss to both levels of governments of about \$12.8 billion.

More For The Rich

There is no doubt that the tax savings linked to RRSPs make them a very attractive option for the well-to-do. The big problem, of course, is that many Canadians do not have lots of extra money to put aside on a regular basis.

Table 11 breaks down contributions to RRSPs by the income class of contributors. The figures came from special calculations by Statistics Canada on preliminary Revenue Canada taxation statistics for 1997.[30] Unlike previous tables in this report, they cover only people in the age group 25 through 64. That is the age group that is most likely to contribute to RRSPs.

Only four percent of the nearly 3.5 million taxfilers ages 25 through 64 with incomes of \$10,000 or less in 1997 contributed money to an RRSP, and their average contribution was \$1,218. The percentage of people who contributed to RRSPs and the size of their average contribution both grew steadily as income increased. Seventy-nine percent of the people 25 through 64 with incomes over \$80,000 in 1997 contributed to RRSPs and their average contribution was \$9,557.

TABLE 11

CONTRIBUTORS TO RRSPs BY INCOME CLASS, ALL TAXFILERS AGES 25-64, 1997

Income Class	RRSP Contributors Ages 25-64	All Taxfilers Ages 25-64	Contributors as Percentage of All Taxfilers	Average Contribution to RRSP
Under $10,000	146,000	3,495,000	4%	$1,218
$10,000-20,000	590,000	2,766,000	21%	$1,892
$20,000-30,000	986,000	2,440,000	40%	$2,427
$30,000-40,000	1,153,000	2,092,000	55%	$3,184
$40,000-60,000	1,576,000	2,394,000	66%	$4,258
$60,000-80,000	677,000	893,000	76%	$5,907
Over $80,000	499,000	628,000	79%	$9,557
Total	5,628,000	14,709,000	38%	$4,058

Little Help for the Poor Over Time

People with meagre incomes are unlikely to be able to contribute to an RRSP in any given year, and they are unlikely to start contributing if their incomes remain low year after year. That means people who go through their working lives with prolonged periods of low income are almost certain to wind up poor in their retirement years.

Statistics Canada has done special calculations on contributions to RRSPs and occupational pension plans over time, and they show that the amount of retirement savings in the longer term depends largely on a person's income. The results of the analysis are shown in Table 12.

The table covers people ages 25 through 64 who filed tax returns for every year from 1991 through 1997.[31] For each income class, it shows the percentage of taxfilers who did not

contribute to either an RRSP or an occupational pension plan at any time during the seven-year period. It also shows the percentage of people who contributed to an RRSP or occupational plan or both every year of the seven years. The final column gives the percentage of the rest of the group - people who contributed to an RRSP or occupational plan at some time during the period, but not every year. The rows do not always add up to 100 percent because of rounding.

TABLE 12

CONTRIBUTORS TO RRSPs OR OCCUPATIONAL PLANS FROM 1991 THROUGH 1997, TAXFILERS AGES 25-64

Income Class	All Taxfilers Ages 25-64	Never Contributed	Contributed Every Year	Rest of Income Class
Under $10,000	2,310,000	81%	1%	19%
$10,000-20,000	2,806,000	44%	6%	50%
$20,000-30,000	2,408,000	17%	25%	57%
$30,000-40,000	1,918,000	7%	49%	44%
$40,000-60,000	2,200,000	3%	69%	29%
$60,000-80,000	780,000	1%	77%	21%
Over $80,000	468,000	1%	75%	24%
Total	12,889,000	29%	33%	39%

Retirement savings plans were a luxury for people 25 through 64 with incomes of less than $10,000. Eighty-one percent of the taxfilers in the income class did not contribute a single penny to an RRSP or occupational pension plan for the years 1991 through 1997. Only one percent of them managed to contribute to one type of plan or the other or both every year during the seven-year period. The remaining 19 percent made some kind of contribution in at least one year, but not in all seven.

The patterns are much like the patterns seen in the 1997 taxation statistics shown in the previous table. Over the seven years, the percentage of taxfilers who never saved at all fell sharply as income rose. Conversely, the percentage of people who saved every year rose more or less steadily with income.

Fully three-quarters of the people in the highest income class in Table 12, people with incomes that topped $80,000 a year, put money into an RRSP or occupational pension plan or both in each of the seven years. Many of the 24 percent shown in the column on the far right were "regular" contributors, but they did not contribute every single year.

Seven years represents a sizable portion of a typical worker's life in the paid labour force. People who are trapped in low-wage or part-time jobs year after year are almost certain to find themselves living in poverty when they turn 65. With little chance to participate in occupational pension plans and little or no extra money to put away for their own retirement, they will have little more than the benefits provided by the first two levels of the retirement income system.

An Unnecessary Giveaway

As we noted in the previous chapter on occupational pension plans, tax deductions provide a double benefit to well-to-do Canadians. The same applies to RRSPs. Not only are upper-income Canadians the people most likely to enjoy a tax break from RRSP contributions, but they also get a proportionately higher tax break than other Canadians.

The tax deduction for an RRSP contribution of $1,000 is worth about $447 in federal, provincial and territorial tax savings to a person in the highest tax bracket. The same contribution of $1,000 is worth only $255 to a person in the lowest tax bracket.

The federal government converted personal exemptions and most deductions to tax credits in 1988. Even the tax deductions for contributions to the Canada and Quebec Pension Plans were converted to credits. However, the government refused to take the next logical step and do the same for contributions to occupational pension plans and RRSPs.

Tax credits are fairer than tax deductions because they provide the same savings regardless of which tax bracket a person is in. For example, a worker in the 17 percent federal tax bracket who earns the average wage and pays $1,186.50 in CPP contributions in 1999, gets a combined federal-provincial tax break of about $303. A worker in the 29 percent tax bracket who pays $1,186.50 in CPP contributions gets the same tax break of $303.

The National Council of Welfare estimates that the federal government lost just over $2 billion in 1996 because it gave tax deductions instead of tax credits to people who made contributions to an RRSP. The total losses from 1988 through 1996 added up to nearly $12 billion.[32]

In short, the intransigence of the Finance Department has cost the federal treasury dearly in recent years and added to the unfairness of our tax system at the same time. If the federal government had switched to tax credits instead of tax deductions, people who contributed to RRSPs would still have received a fair tax break, the government would have had $12 billion in additional revenue, and some of the cuts in federal programs for Canadians that devastated the social policy landscape of the 1990s might have been avoided.

All in all, RRSPs do encourage saving for retirement, but primarily by people who have large amounts of discretionary income from year to year. The tax breaks linked to RRSPs reward the rich the most, they offer modest encouragement to people with average incomes and they provide very little help to the poor.

SOURCES OF INCOME FOR SENIORS

When we step back from the many different programs in the three levels of the retirement income system and look at the actual incomes of seniors, what do we find? What programs are most important to seniors? What kinds of income mean the difference between retiring in poverty and retiring in relative comfort?

The answers to these questions can be found in Statistics Canada's Survey of Consumer Finances, which for many years was the main source of statistics on poverty and the distribution of income in Canada. The latest survey, which covers incomes received in 1997, shows that federal benefits for seniors in the first level of the retirement income system and benefits from the Canada or Quebec Pension Plan in the second level of the system are major sources of income for the overwhelming majority of seniors. They account for the bulk of the incomes of low-income seniors, and they provide a significant amount of income for many seniors who are better off.

Tables 13, 14 and 15 show the most common sources of income for three different family types of seniors: unattached women, unattached men and married couples. Unattached people live on their own or in homes where they are not related to the other members of the household. Married couples are husbands and wives who live together on their own, and without other family members in the household. Senior couples are couples where one or both of the spouses is 65 or older.

Each table also distinguishes between poor seniors, or seniors with incomes below the low income cut-offs of Statistics Canada, and non-poor seniors, or seniors with incomes above the cut-offs.

Table 13 shows sources of income for unattached women 65 and older in 1997. There were 359,000 poor women and 496,000 non-poor women for a total of 855,000 women. The poverty rate was 359,000 divided by 855,000 or 42 percent.

TABLE 13

SOURCES OF INCOME FOR UNATTACHED WOMEN 65 AND OLDER, 1997

Source of Income	Poor Unattached Women 65 and Older (359,000)		Non-Poor Unattached Women 65 and Older (496,000)	
	Percent Receiving	Average Amount to Recipient	Percent Receiving	Average Amount to Recipient
Old Age Security and Guaranteed Income Supplement	98%	$8,291	99%	$5,960
Canada and Quebec Pension Plans	72%	$3,948	93%	$5,726
Investment Income and Savings	29%	$1,469	62%	$5,526
Provincial Supplements	23%	$1,087	9%	$1,711
Occupational Pension Plans	15%	$2,753	48%	$8,994
Earnings	sample too small		4%	$14,096
RRSP Annuities	3%	$2,544	22%	$6,206
Total Government Transfers	100%	$11,808	100%	$12,370
Total Income from All Sources	100%	$12,818	100%	$22,441

Almost all the poor unattached women had income from the Old Age Security pension and Guaranteed Income Supplement, and 72 percent had a modest amount of income from the Canada or Quebec Pension Plans. The percentages of poor unattached women who received income from other sources were much lower. The category investment income and savings includes income from stocks and bonds, but not capital gains or losses and not savings through RRSPs. The category provincial supplements may include a small number of seniors who received welfare in 1997, but low-income seniors normally receive the Guaranteed Income Supplement and provincial and territorial income supplements rather than welfare. In the case of earnings, the sample size for poor unattached women was too small to report.

Most non-poor unattached women also had income from Old Age Security, but probably not from the Guaranteed Income Supplement, and income from the Canada or Quebec Pension Plans. A sizable percentage had income from investments and savings, occupational pension plans and RRSPs.

The bottom two rows of Table 13 show government transfers, or income from government-run programs of one kind or another, and total average income from all sources.

Poor unattached women 65 and older received an average of $11,808 from government transfers in 1997 or 92 percent of their total average income of $12,818. The most important government transfers by far were Old Age Security, the Guaranteed Income Supplement and the Canada and Quebec Pension Plans.

Government transfers were also an important source of income for non-poor unattached women 65 and older, but they also had other important sources of income. Government transfers amounted to $12,370 on average or 55 percent of their total average income of $22,441.

The picture was somewhat similar for the unattached men 65 and older shown in Table 14 on the next page. There were a total of 82,000 poor unattached men 65 and older in 1997 and 219,000 non-poor men for a total of 301,000. The 1997 poverty rate was 27.2 percent.

The lower poverty numbers and rates for unattached men are partly a reflection of the stronger work place attachment of men than women during their earlier lives and the gap between the average wages of men and women. The higher number of poor unattached women is also a reflection of the fact that women live longer than men on average.

Unattached senior men are more likely to have earned income from a job or self-employment. About 14 percent of the non-poor unattached senior men reported earnings in 1997, compared to four percent of non-poor unattached senior women.

TABLE 14

SOURCES OF INCOME FOR UNATTACHED MEN 65 AND OLDER, 1997

Source of Income	Poor Unattached Men 65 and Older (82,000)		Non-Poor Unattached Men 65 and Older (219,000)	
	Percent Receiving	Average Amount to Recipient	Percent Receiving	Average Amount to Recipient
Old Age Security and Guaranteed Income Supplement	96%	$8,032	99%	$5,594
Canada and Quebec Pension Plans	81%	$3,807	94%	$6,320
Investment Income and Savings	sample too small		55%	$5,486
Provincial Supplements	23%	$1,995	6%	$1,931
Occupational Pension Plans	14%	$2,764	59%	$14,009
Earnings	8%	$3,102	14%	$19,618
RRSP Annuities	sample too small		18%	$6,637
Total Government Transfers	100%	$11,784	100%	$12,694
Total Income from All Sources	100%	$12,661	100%	$28,705

Married couples 65 and older have the same sources of income as unattached people 65 and older, but they have poverty rates that are dramatically lower. The main reason for this is couples almost always have two sources of income rather than one, starting with two Old Age Security pensions and often two pensions from the Canada or Quebec Pension Plans.

In 1997, there were 65,000 poor senior couples and 875,000 non-poor couples for a total of 940,000 couples. Their poverty rate was only seven percent.

TABLE 15

SOURCES OF INCOME FOR MARRIED COUPLES 65 AND OLDER, 1997

Source of Income	Poor Couples 65 and Older (65,000)		Non-Poor Couples 65 and Older (875,000)	
	Percent Receiving	Average Amount to Recipient	Percent Receiving	Average Amount to Recipient
Old Age Security and Guaranteed Income Supplement	91%	$11,215	100%	$9,422
Canada and Quebec Pension Plans	84%	$5,875	97%	$8,531
Investment Income and Savings	27%	$1,341	66%	$7,860
Provincial Supplements	20%	$1,827	6%	$1,994
Occupational Pension Plans	24%	$2,768	65%	$15,053
Earnings	11%	$2,355	23%	$22,716
RRSP Annuities	6%	$1,469	29%	$7,798
Total Government Transfers	99%	$16,324	100%	$18,818
Total Income from All Sources	100%	$17,864	100%	$41,722

In addition to the seniors shown in Tables 13, 14, and 15, there were 319,000 other families headed by seniors in 1997 - 30,000 of them poor families and the rest non-poor. Some of these families were made up of brothers or sisters 65 or older who were living together or married couples 65 and older who lived with their older children or children and grandchildren. The sources of income for these families are not always clear, because of income that is provided by younger members of the household. For example, the household could consist of a husband and wife 65 or older with income from pension plans, and a married or unmarried child with earnings.

For both unattached seniors and senior couples, government-run pension programs are an essential source of basic income. However, it is the other sources of income, primarily the non-governmental sources of income, that mean the difference between retiring in poverty or retiring in more comfortable circumstances.

Earnings can help seniors make ends meet, but relatively few seniors continue in the paid labour force long after they turn 65.

Occupational pension plans are important for seniors lucky enough to benefit from them, but access to occupational plans is largely a function of the jobs people have during their years in the paid labour force. Large employers and employers in the public sector often have good pension plan coverage. Plans are rare among small employers in the private sector.

That leaves different kinds of savings, from personal savings and investments to registered retirement savings plans. People who had extra money to put away during their working lives could go into their retirement years with large nest eggs. People who were poor during their working years are almost certain to be poor when they retire.

CONCLUSION

Although a number of improvements have been made in all three levels of Canada's retirement income system over the years, the system still has profound limitations that have not been adequately addressed by governments. The sad truth about the last several years is that most governments have been more interested in extracting money from seniors than helping them maintain a decent standard of living.

Contrary to popular opinion, the war on poverty among seniors is not yet over. Poverty rates have indeed declined more or less steadily within the past generation, but 17 percent of Canadians 65 and older were poor in 1997. The overall rate of 17 percent obscures the reality that the rates for married seniors are very low and the rates for seniors living on their own are very high. The poverty rate for unattached women 65 and over was 42 percent in 1997, the second highest poverty rate for any of the eight major family types.[33]

The total poverty gap for seniors - or the amount of money it would have taken to raise the incomes of all poor seniors up to the poverty line - was just under $1.5 billion in 1997. That may sound like a lot of money, but it is a very small percentage of total government spending. By itself, the federal government could find the money to wipe out poverty among seniors simply by converting tax deductions for RRSPs to tax credits.

At the first level of the retirement income system, combined federal and provincial benefits are not high enough to get most seniors over the poverty line. The last major increase in federal benefits for seniors was an increase in the Guaranteed Income Supplement at the end of 1984. The last increase even proposed by Ottawa - only to be withdrawn two years later - was an increase of $10 a month per household in 2001 as part of the switch to a new Seniors Benefit. Perhaps the most salient feature of the ill-fated Seniors Benefit was its plan to cut billions of dollars a year from benefits for middle-income and upper-income seniors starting in the early years of the next century.

At the second level, the shortcoming of the Canada Pension Plan and Quebec Pension Plan that overshadows all others is the low limit on retirement benefits. The plans were designed to replace a maximum of 25 percent of earnings up to the average industrial wage.

Even with a full CPP or QPP pension and the Old Age Security pension, a retired person qualifies for a sizable Guaranteed Income Supplement and still winds up below the poverty line for a large city. The last round of changes in the plans, however, showed that the federal government and most provincial governments were much more interested in trimming benefits than enhancing them.

At the third level, the improvements made in occupational pension plans are welcome and long overdue and seem certain to provide tangible benefits to workers lucky enough to be members. The biggest shortcomings of occupational plans are poor coverage and abysmally poor inflation protection among plans in the private sector.

Higher-paid Canadians are the main beneficiaries of occupational pension plans. The same holds true for registered retirement savings plans. RRSPs have long been a choice tax break for wealthy Canadians and a major drain on the federal treasury. They offer little or no financial security to poor Canadians.

Poverty among seniors will continue to be a problem until governments get over their fixation with cuts in benefits and start working on ways of improving the different levels of our retirement income system. The National Council of Welfare urges governments to use 1999, the U.N. International Year of Older Persons, as the year to renew their commitments to income security for seniors.

APPENDIX A

CANADA'S RETIREMENT INCOME SYSTEM

LEVEL ONE	Beneficiaries	Eligibility
• Old Age Security	3.7 million 65+	Full Benefits to $53,215 in Net Individual Income
• Guaranteed Income Supplement	1.4 million 65+	Low-Income People
• Spouse's Allowance	99,000 Ages 60-64	Selected Low-Income People
• Provincial/Territorial Supplements	300,000 Mostly 65+	Low-Income People in Some Jurisdictions

LEVEL TWO	Contributors	Pensioners
• Canada Pension Plan	9.9 million	2.5 million
• Quebec Pension Plan	3.2 million	0.9 million
Total	13.1 million	3.4 million

LEVEL THREE	Plan Members or Contributors	Retired Beneficiaries
• Occupational Pension Plans	5.1 million	2.1 million
• Registered Retirement Savings Plans	6.0 million	1 million?[34]

APPENDIX B

TAX BREAKS FOR SENIORS

In addition to the tax deductions and tax credits for pension and RRSP contributions that were described in the body of this report, older Canadians are able to take advantage of two other tax breaks designed specifically with them in mind: the age credit and the credit for the first $1,000 in pension income from an occupational pension plan.

Current tax law allows most seniors 65 and older to claim a tax credit by virtue of their age. The amount that appears on the income tax form is $3,482, but the actual federal tax break is 17 percent of $3,482 or $592. Adding in estimated savings on provincial or territorial taxes at a rate equivalent to 50 percent of the basic federal tax, the overall tax savings from the age credit amount to $888.

The maximum age credit goes only to seniors with net incomes below $25,921. Seniors with higher incomes have the gross amount of the credit reduced by 15 cents for every dollar of net income over $25,921. The entire credit disappears once net income reaches $49,134.

A second credit aimed primarily, but not exclusively, at seniors is the pension income amount to eliminate taxes on the first $1,000 of income from an occupational pension plan or personal retirement income plan. Occupational pension plan means a private or company pension plan, not Old Age Security, the Canada Pension Plan, the Quebec Pension Plan or the Saskatchewan Pension Plan.

For people 65 and older, the credit can be used to eliminate taxes on the first $1,000 in pension payments from an occupational pension plan, annuity payments from a registered retirement savings plan or payments from a registered retirement income fund. It cannot apply to lump-sum withdrawals from a pension plan or RRSP. For people under 65, the pension income credit is available in the case of life annuity payments from an occupational pension plan.

The maximum federal tax break is 17 percent of $1,000 or $170. With estimated savings on provincial or territorial taxes added in, the total tax break is $255.

Revenue Canada allows married seniors with little or no taxable income to transfer any unused age or pension income credits to their spouses. For example, if one spouse has income from an occupational pension plan or annuity, but does not need to use all or part of the $1,000 pension income amount to reduce his or her taxable income to zero, the part not needed can be transferred to the other spouse.

The current cost of the age credit to the federal government is in the neighbourhood of $1.5 billion a year, and cost of the pension income credit is about $400 million a year.[35] Provincial governments aside from Quebec and territorial governments also lose revenue from these tax breaks because their tax systems are linked to the federal system. Quebec has its own provincial tax system.

ENDNOTES

1. The statistical information in this chapter was provided by Human Resources Development Canada (HRDC). Among the most useful sources of information are the monthly statistics on Old Age Security and the Canada Pension Plan available on the HRDC web site at http://www.hrdc-drhc.gc.ca/isp/studies/trends/index.htm.

2. As of January 1999, there were agreements in force between Canada and the following countries: Antigua and Barbuda, Australia, Austria, Barbados, Belgium, Chile, Cyprus, Denmark, Dominica, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Jamaica, Jersey and Guernsey, Luxembourg, Malta, Mexico, The Netherlands, New Zealand, Norway, The Philippines, Portugal, Saint Lucia, Saint Kitts-Nevis, Saint Vincent Grenadine, Spain, Sweden, Switzerland and the United States.

3. Income that is not taxable under the Income Tax Act is not considered in calculating entitlements for the Guaranteed Income Supplement. As well, the Old Age Security Act specifically exempts the following sources of income for GIS purposes: Old Age Security pensions, death benefits under the Canada Pension Plan and Quebec Pension Plan, provincial and territorial income supplements, provincial and territorial welfare payments, and home insulation grants.

   Both the Guaranteed Income Supplement and the Spouse's Allowance are based on income rather than need. People qualify for benefits on the basis of a simple, straight-forward income test. Personal assets such as a home or car are not considered at all. Income-producing assets such as bonds and rental property are considered only to the extent that they actually provide income in any given year.

4. For details of how poverty among the elderly has changed in recent years, see the National Council of Welfare's annual publication Poverty Profile.

5. The poverty lines are described in detail in Poverty Profile. They are calculated by Statistics Canada for individuals and families of different sizes living in areas ranging from rural areas to large metropolitan centres. The larger the family or community, the higher the poverty line. Statistics Canada calls them "low-income cut-offs," while the National Council of Welfare calls them "poverty lines." Regardless of the term, they represent levels of gross income where families or individuals have to spend disproportionate amounts of their income on food, shelter and clothing.

   The National Council of Welfare uses the version of the low income cut-offs known as the "1986 base" LICOs. They were originally drawn by Statistics Canada based on spending patterns that were surveyed in 1986. The lines are updated each year using the Consumer Price Index.

6. Prior to 1985, the Spouse's Allowance program covered only those widows and widowers who first qualified for the allowance when their spouses were alive. Among those excluded from the program were widows whose husbands died before age 65 and widows who were under 60 when their pensioner husbands died.

7. Provincial and territorial estimates.

8. Unpublished data from Statistics Canada.

9. The amount of the Alberta supplement varies with the type of housing. The rates shown in the table are for renters. The maximum rates for homeowners were $1,800 a year for a single person and $2,950 for a two-pensioner couple. One of the reasons the supplements are large compared to other jurisdictions is that they cover some housing and health care costs previously covered by other programs.

10. Most of the statistical information in this chapter was provided by Human Resources Development Canada. Information about the Canada Pension Plan can be found on the HRDC web site at http://www.hrdc-drhc.gc.ca/isp/common/ccptoc_e.shtml. The home page of the Quebec Pension Plan is at http://www.rrq.gouv.qc.ca/an/english.htm.

11. For details of the National Council of Welfare's proposals for keeping the Canada Pension Plan on a sound financial footing and for improving CPP benefits, see the Council's report Improving the Canada Pension Plan (Autumn 1996).

12. Unpublished data from Statistics Canada.

13. Monthly statistics on Human Resources Development Canada website.

14. Ontario has a veto over changes in the Canada Pension Plan because it alone has more than one-third of the population of Canada. Changes in the plan require the approval of the federal government and two-thirds of the provinces with two-thirds of the population.

15. To the extent that the earnings of wives are less than the earnings of their husbands, credit-splitting benefits wives. In cases where wives earn more than their husbands, it benefits husbands.

16. Most of the information in this chapter on membership in occupational pension plans comes from Statistics Canada, Pension Plans in Canada, Catalogue No. 74-401-SPB, and supplementary tables for the public and private sectors available as Catalogue No. 74C0002.

17. Revenue Canada, Income Statistics (1996 Tax Year), Tables 2 and 4. The figures include income from registered retirement income funds, deferred profit-sharing plans and foreign pensions.

18. Some analysts argue that there is no real difference between contributory and non-contributory plans. Employers have limits on the amounts they are prepared to spend on salaries and benefits. If the arrangement is to have a non-contributory plan, presumably workers would get lower wages or less generous fringe benefits than their counterparts at a company that had a contributory pension plan.

19. For more details about the requirements in each province, see Appendix I of Pension Plans in Canada.

20. Statistics Canada has changed its definitions of public sector and private sector pension plans over the years, and the latest definitions are not compatible with other labour force data published by the bureau. Using one set of older definitions, private sector coverage barely changed at all between 1970 and 1986.

21. Pension Plans in Canada, p. 8.

22. Income Statistics, Table 2A. The category "persons with employment income" was used as a proxy for the total number of people in each income class who would be eligible to join an occupational pension plan if one were available. We used the table for taxable returns to limit the ranges to people who actually earned enough income in 1996 to pay income taxes.

23. Finance Canada, Government of Canada Tax Expenditures (Ottawa: 1999), p. 15

24. Supplementary data for Pension Plans in Canada, Tables 32, 33 and 34 for public sector and private sector pension plans. Among members of the public sector plans in Graph E with only partial indexing, about 52 percent had annual indexing arrangements of CPI minus three to four percentage points. In other words, pensions would increase only to cover inflation in excess of three or four percent a year. Among members of private sector plans with partial indexing, caps on the amount of annual CPI indexing were the most common arrangement. About 38 percent of plan members with partial indexing were limited to increases of four percent a year or less.

25. The Canada and Quebec Pension Plans also use career earnings, but each year's earnings are adjusted for the growth in average earnings up to the year of retirement.

26. The basic idea behind registered retirement incomes funds is simple, but some of the options are anything but. For more information, consult one of the annual consumer guides on retirement income plans.

27. For details of these programs, contact Revenue Canada. The Department publishes a number of specialized tax guides in print form, and most of these are also available on the Internet on the Revenue Canada web site at http://www.rc.gc.ca.

28. Revenue Canada, Income Statistics (1996 Tax Year), Table 4.

29. Government of Canada Tax Expenditures, p. 14.

30. Statistics Canada, Retirement Savings Through RPPs and RRSPs, 1991 to 1997, Table S3, p. 42 (Catalogue No. 74F0002XPB). Data in the report were produced from a sample of two percent of all taxfilers.

31. Same, Table S1, p. 39. For the purposes of the analysis, Statistics Canada classified taxfilers according to their average annual incomes over the seven-year period. The number of taxfilers is smaller than the number in Table 11 because not all the group that appears in the 1997 records filed returns for all six previous years.

32. The calculations assume that taxpayers with incomes of $50,000 or more saved 29 percent of basic federal tax because of their RRSP deductions, and taxpayers with incomes of less than $50,000 saved 22 percent of basic federal tax on average. Under a system of tax credits, we assumed federal tax savings of 17 percent on all contributions to RRSPs. Provincial and territorial governments also lose revenue because of tax deductions for RRSPs, and their losses also would be more modest with tax credits instead of tax deductions.

33. This paragraph and the next use unpublished data from Statistics Canada for 1997.

34. Revenue Canada Income Statistics reported about 2.1 million people with income from occupational pension plans or registered retirement income funds, just over one million people with annuity income, and just over one million people with RRSP income in 1996. It is not known how much of an overlap there is in these three categories or how many people reporting RRSP income cashed in their plans for spending other than retirement income.

35. Government of Canada Tax Expenditures, p. 14.

MEMBERS OF THE NATIONAL COUNCIL OF WELFARE

Mr. John Murphy (Chairperson)
Canning, Nova Scotia

Mr. Armand Brun (Vice-Chairperson)
Shediac, New Brunswick

Ms. Doris Bernard	Radisson, Quebec
Ms. Olive Crane	Mt. Stewart, Prince Edward Island
Ms. Helen Margaret Finucane	Regina, Saskatchewan
Ms. Miriam Green	Montreal, Quebec
Ms. Alice Hanson	Edmonton, Alberta
Mr. Bruce Hardy	Surrey, British Columbia
Ms. Dana Howe	Windsor, Ontario
Mr. David S. Northcott	Winnipeg, Manitoba
Ms. Marilyn Peers	Halifax, Nova Scotia
Ms. Joanne Roberts	Quirpon, Newfoundland
Mr. Abdi Ulusso	Etobicoke, Ontario

****

Director: Steve Kerstetter

Consultant: Michael J. MacLean, AgeWise Inc.

Senior Researcher and Policy Adviser: Joanne Roulston

Liaison Officer: Carole Lanthier Bayram

Publications Officer: Chantale Lortie

NATIONAL COUNCIL OF WELFARE

The National Council of Welfare was established by the Government Organization Act, 1969, as a citizens' advisory body to the federal government. It advises the Minister of Human Resources Development on matters of concern to low-income Canadians.

The Council consists of members drawn from across Canada and appointed by the Governor-in-Council. All are private citizens and serve in their personal capacities rather than as representatives of organizations or agencies. The membership of the Council has included past and present welfare recipients, public housing tenants and other low-income people, as well as educators, social workers and people involved in voluntary or charitable organizations.

Reports by the National Council of Welfare deal with a wide range of issues on poverty and social policy in Canada, including: income security programs, welfare reform, medicare, poverty lines and poverty statistics, the retirement income system, taxation, labour market issues, social services and legal aid.

On peut se procurer des exemplaires en français de toutes les publications du Conseil national du bien-être social, en s'adressant au Conseil national du bien-être social, 2^{e} étage, 1010 rue Somerset ouest, Ottawa K1A 0J9.